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Part 1

Explanatory Foreword

Introduction

The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts.

It provides an explanation in overall terms of the Council's financial position, and assists in the interpretation of the accounting statements. It also contains a commentary on the major influences affecting the Council's income and expenditure and cashflow, and information on the financial needs and resources of the Council.

The Statement of Accounts which follow demonstrate the Council's financial performance for the year ended 31 March 2011, and present its overall financial position at the end of that period and the cost of services it provides. The statement has been prepared in accordance with the International Financial Reporting Standards (IFRS)-Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA[1]/LASAAC[2] Board and approved by FRAB[3]. The Code constitutes proper accounting practice[4].

When read in conjunction with the Council's Annual Report[5], the publications provide an insight into the many activities and achievements of the Council during the year.

The Statement of Accounts

The Statement of Accounts is set out on pages 17 to 86. The statement covers the financial year from 1 April 2010 to 31 March 2011, with comparative figures included for previous periods where appropriate. Note that all figures are rounded to the nearest thousand (£000s) unless otherwise stated. The accounts consist of the following statements that are required to be prepared under the Code of Practice:

Statement of Responsibilities (Page 16)

This explains both the Council's and the Strategic Director, Finance & ICT's responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 17 to 75):

Movement in Reserves Statement (Page 18)

This statement shows the movement in the year across the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other, 'unusable' reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes.

[1] The Chartered Institute of Public Finance and Accountancy
[2] CIPFA's Local Authority (Scotland) Accounts Advisory Committee
[3] Financial Reporting Advisory Board, an independent board within HM Treasury
[4] Under the terms of the Accounts and Audit (England) Regulations 2011 & the Local Government and Housing Act 1989
[5] See http://www.gateshead.gov.uk/Council%20and%20Democracy/PerformanceThemes/OurPerformanceReports.aspx

The 'net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement (Page 20)

The purpose of this statement is to report income and expenditure relating to all services provided by the Council and how the net costs of these services have been financed by local taxpayers and central government grants.

The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Best Value Accounting Code of Practice (BVACOP).

Balance Sheets as at 31 March 2009, 2010 and 2011 (Page 21)

These show the Council's financial position and net assets at the financial year-end. They summarise the long-term and current assets, which are used in carrying out the Council's activities, together with its liabilities. In 2010/11, the first financial year of IFRS adoption, a further comparative Balance Sheet for 31 March 2009 is required.

Cash Flow Statement (Page 23)

This summarises the cash receipts and payments of the Council arising from transactions with third parties for both capital and revenue purposes.

Notes to the Core Financial Statements (Page 25)

The notes provide additional information to support the core statements above.

Statement of Accounting Policies (Appendix 2, Page 96)

This explains the basis for the recognition, measurement and disclosure of transactions in the accounts. The accounts and the Council's financial position can only be properly appreciated if the policies, which have been followed in dealing with material items, are explained.

Supplementary Financial Statements (pages 76 to 86):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (Page 77)**
  This account deals with the provision and maintenance of the Council's housing stock. There is a statutory requirement to produce this account, which separates housing from all other Council services[6].

- **Statement of Movement on the HRA Balance (Page 78)**
  This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.

- **Notes to the Housing Revenue Account (Page 79)**
  The notes provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (Page 84)**
  The Council is required[7] to establish and maintain a Collection Fund, which shows the transactions of the Council in relation to national non domestic rates and council tax and

[6] As a billing authority (an authority that collects Council Tax and business rates). Its responsibilities are defined in Schedule 4 of the Local Government and Housing Act 1989 [available from www.legislation.gov.uk]
[7] By the Local Government Finance Act 1992 [available from www.legislation.gov.uk]

illustrates the way in which these have been distributed to precepting authorities and the General Fund.

The Collection Fund is like a trust fund. It is managed by the billing authority but its accounts must be kept separate from the Council's accounts. The Collection Fund receives all income in respect of national non domestic rates and council tax. It then pays out the demands and precepts made upon it by Gateshead Council, Northumbria Police Authority and the Tyne & Wear Fire and Rescue Authority.

- **Notes to the Collection Fund Statement (Page 85)**
  These provide additional information to support the Collection Fund.

Documents Supporting the Statement of Accounts:

Annual Governance Statement (Page 115)

This statement, required by regulations[8] to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control[9].

Independent Auditor's Report (Page 123)

This report details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 124)

This section includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terminology.

[8] Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011 [available from www.legislation.gov.uk]
[9] in line with Regulation 4 of the Accounts and Audit (England) Regulations 2011

Revenue Expenditure and Income Summary

Revenue expenditure is the day-to-day running costs of providing the Council's services and includes expenses such as salaries and wages, heating, cleaning, repairs and maintenance and the costs of borrowing.

The estimated net revenue expenditure for 2010/11 to be met from government grants and local taxpayers was approved at £232.589m (excluding schools), supported by the use of £2m from the General Reserve and £13.566m from earmarked reserves. This meant that the band D council tax was set at £1,443.20 (excluding precepts) for 2010/11. This represented an increase of 1.9% over the 2009/10 band D council tax.

Budget monitoring is carried out throughout the year. Each quarter budget monitoring reports are considered by the Council's Cabinet. These detail the outcome of the review of budgets and spending forecasts for both revenue and capital expenditure and also include a review of certain other key financial items such as Prudential Indicators.

The Council incurred gross expenditure of £866m on its services to the public, the following table summarises the financial position at the year end, showing a decrease in the General Fund balance of £1.527m, made up of £1.511m General Reserve and £0.016m of balances held by schools under the Local Management of Schools (LMS). The table also shows the revised budget position for 2010/11:

Summary of 2010/11 Financial Position		
	2010/11 Revised Estimate £000s	**2010/11 Actual Outturn £000s**
Net expenditure on services	**232,182**	**470,410**
Other operating expenditure	12,641	12,885
Financing and investment income and expenditure	28,450	43,295
Taxation and non specific grant income	(217,023)	(271,845)
(Surplus) or deficit on provision of services	**56,250**	**254,745**
Adjustment between accounting basis and funding basis under regulations	(39,909)	(226,594)
Use of earmarked reserves	(13,566)	(26,097)
Movement on General Fund and HRA	**2,775**	**2,054**
Movement on General Fund	**2,000**	**1,527**
Movement on Housing Revenue Account (HRA)	**775**	**527**
General Fund balance brought forward		
General Reserve	17,505	17,505
LMS Reserve	10,907	10,907
	28,412	**28,412**
General Fund balance carried forward		
General Reserve	15,505	15,994
LMS Reserve	10,907	10,891
	26,412	**26,885**

A report to Cabinet on 21 June 2011 reported that the final revenue outturn on services, consistent with the revenue monitoring position during the year was an overspend of £2.092m (0.9%). The report also noted that one off income including a surplus on the Construction Services trading account and reductions in insurance costs brought the overall budget on target with an underspend of £0.488m. This outcome meant that the General Reserve reduced by £1.511m compared to the planned use of £2.0m, giving a final position on the General Reserve of £15.994m.

The agreed use of earmarked reserves is £14.141m, an increase of £0.575m over the original budget. This falls into two main categories:

Use of Earmarked Reserves in 2010/11	To £000s	From £000s
Appropriations to / from earmarked reserves		
Use consistent with previous decisions		
Budgeted use of reserves matching expenditure	0.400	12.571
Economic Downturn funding the Ten Point Plan	0	0.217
Gateshead Development Pool - ward based schemes	0	0.456
Grant Clawback Reserve - grant repayments	0	0.338
	0.400	**13.582**
Additional use of reserves		
Cultural Development Reserve supporting Culture 365 initiatives	0	0.235
Economic Development Reserve funding building control and development control fees income shortfall	0	0.365
Developers' Contributions Reserve supporting expenditure	0	0.033
Developers' Contributions Reserve supporting income	0.313	0
Local Area Agreement Reward Grant to support grant withdrawal	0	0.639
	0.313	**1.272**
Total appropriations	**0.713**	**14.854**

In addition to those appropriations arising from budgeted costs, it is also necessary to account for exceptional costs in relation to redundancies. On 7 December 2010, the Council made an offer of voluntary redundancy (VR) to all employees with the exception of those working in schools. The offer was time limited with a view to having a confirmed number of leavers by 31 March 2011, with the remainder by 30 June 2011. The accounts include a cost of £11.502m in the relevant cost of service in relation to those employees who left the Council or received a formal offer, by 31 March 2011. This expenditure is funded by budgeted use of reserves of £1.0m and a capitalisation direction of £6.808m, split between £1.952m for statutory redundancy costs (meaning the Council can spread the cost over a number of years), and £4.856m use of capital receipts for pension costs. In accordance with the strategy agreed in the Medium Term Financial Strategy[10], the remaining balance of £3.694m will be met from the Development Pool.

A provision for £10m is also included in relation to an estimated cost of those who will leave the Council's employment under voluntary redundancy by 30 June 2011, which will also be met from the Development Pool. The impact of the costs of VR is to increase the appropriation from earmarked reserves by £11.926m to £26.097m.

[10] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-25968/Item+04a+-+Medium+Term+Financial+Strategy.doc

The Education Reform Act 1988 allows for the carry forward of individual school balances. These earmarked reserves are held for schools to support future spending decisions. However, the level of the reserve, in accordance with the Code, forms part of the Movement in Reserves Statement (page 18). A total of 49 schools underspent their Individual Schools Balance (ISB) and increased their reserves by £1.895m and 37 schools overspent on their ISB and have drawn on their reserves by £1.910m. This gives a net decrease in school balances in 2010/11 of £0.016m, from £10.907m at 31 March 2010 to £10.891m at 31 March 2011. Spending by schools is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement on the Children's and Education Services cost of service line (see also Note 5), and further details of this reserve are set out in Note 16.

Although some services have spent in excess of their original estimate, the action taken during the year to freeze recruitment and reduce non-essential spending combined with the generation of additional income has resulted in the overall spending of the Council being contained within the original budget. This is a significant achievement given the financial pressures faced by all services and enables the Council's sound financial position to be maintained during a difficult period for public spending and the economy. A summary of the main areas of service variances are as follows:

Learning and Children

- The Children and Young People's Service underspent by £1.003m, mainly in relation to grant maximisation and reduced expenditure on supplies and services; and
- Business Support overspent by £0.507m, mainly in relation to one-off ICT expenditure for the Building Schools for the Future programme and reflects timing differences for revenue schemes over a number of years.

Community Based Services

- Adults' Social Services overspent by £4.823m, mainly due to continuing pressure on Older People and Disability budgets;
- The Housing General Fund underspent by £0.465m, mainly due to the over recovery of overpaid Housing Benefits; and
- Community Support underspent by £0.396m due to additional grant funding and reduced expenditure in Neighbourhood Management due to project slippage.

Development and Enterprise

- Highways and Transport underspent by £0.924m which includes £0.27m S106 contributions from developers which will be appropriated to the Developers' Contributions Reserve. The remaining underspend is in relation to additional car parking income, over recovery of technical costs and business rate refunds; and
- Economic Development overspent by £0.217m, which includes £0.496m expenditure in relation to the Ten Point Plan, partially offset by salary slippage. Consistent with previous decisions, the expenditure on the Ten Point Plan will be funded from the Economic Downturn Reserve, but only to the value of the overall overspend on the service as a whole.

Local Environmental Services

- Local Environmental Services (LES) overspent by £0.544m, mainly in relation to: additional legal fees associated with the South of Tyne and Wear Waste Management Partnership which reached financial close in 2010/11, a short fall on catering income, increased energy costs for Facilities Management and additional winter maintenance costs due to the adverse weather. The extra cost of ensuring the borough's highways network remained open during the severe weather in November

and December alone was £0.344m. This was partially offset by additional school meals income and improved recovery on fuel charges.

Central Services

- Other Services and Contingencies overspent by £0.517m due to a number of issues including equal pay claims, non achievement of procurement targets and expenditure on Ward Based Schemes. Equal pay costs are funded from contingencies and expenditure on Ward Based Schemes is funded from the Development Pool.

Other

- Capital financing underspent by £0.787m reflecting reduced external interest payments;
- Investment income over achieved by £0.851m, after offsetting the Heritable Bank impairment of £0.387m (see Note 23) which needs to be accounted for this year in advance of an expected full recovery in the future; and
- There was a short fall in Area Based Grant as a result of the government's cuts as part of the emergency Budget in June 2010.

Capital Expenditure and Income

In addition to spending on day-to-day activities, the Council incurs expenditure on the acquisition of non-current assets that will be used in providing services beyond the current accounting period or expenditure that adds value to an existing non-current asset.

The Council approved a capital programme of £158.297m at its meeting in February 2010[11], which was revised to £186.381m at the third quarter. The final capital outturn for the year of £160.268m is £26.113m less than the third quarter revised budget, mainly due to re-profiling of grant funded schemes such as Housing Market Renewal and Building Schools for the Future. In addition, expenditure on several of the housing schemes has been re-phased into 2011/12 as part of the agreed Housing Capital Programme.

The reduced outturn also reflects that work on several projects was stopped due to the significant pressure on resources. This included expenditure on schemes such as the Block Improvement Scheme and the proposed redevelopment of the Cowan Road Household Waste Recycling Centre (HWRC). These reductions were necessary to ensure that the Council's capital investment continues to be sustainable and affordable.

Actual capital expenditure for the year on the Council's non-current assets totalled £137.361m (2009/10: £140.947m). This expenditure was invested in the provision and maintenance of the Council's assets such as housing, schools, residential homes, roads and leisure and cultural facilities.

In addition, £16.099m (2009/10: £12.223m) was spent on schemes where no asset of the Council was created such as grants to private individuals and voluntary organisations, works to voluntary aided schools and children's centres, together with master planning feasibility work and capitalisation in accordance with government requirements.

The remaining £6.808m of expenditure was used to help fund the cost of voluntary redundancies following the award of a capitalisation direction in December 2010.

[11] http://online.gateshead.gov.uk/docushare/dsweb/View/Collection-3338

A summary of how the £160.268m was financed is as follows:

2010/11 Capital Financing	
	£000
Supported Borrowing	19,573
Prudential Borrowing	64,620
Capital Grants and Contributions	65,104
Major Repairs Allowance	3,258
Revenue Contributions	820
Capital Receipts	4,877
Gateshead Development Pool Reserve	456
Insurance Fund	1,560
Total	**160,268**

The increased investment in the Council's housing stock resulting from the successful award of two-star status to the Gateshead Housing Company (TGHC) during 2005/06 has continued in 2010/11. The total Housing Revenue Account capital spending in 2010/11 was £43.003m (2009/10: £72.704m).

The Council also acquires the use of assets through operating lease agreements. Leasing rentals on buildings and equipment during the year totalled £0.292m.

Council's Current Borrowing and Capital Borrowing Position

The Budget and Council Tax Level Report[12] incorporating Prudential Indicators submitted to Council on 25 February 2010 detailed the 2010/11 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code introduced on 1 April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2010/11 were as follows:

- Authorised limit for external debt for 2010/11 of £728m
- Operational boundary for external debt for 2010/11 of £693m

As part of the Council's Treasury Management operation, these two prudential indicators are monitored on a daily basis, and neither were exceeded during 2010/11. The highest level of external debt incurred by the Council in respect of the above limits during 2010/11 was £563.884m for the period 8 October to 13 December 2010.

Building Schools for the Future

In December 2007 the Council entered into a public / private partnership with InspiredSpaces to create a Local Education Partnership (LEP) for the redevelopment of schools in Gateshead and South Tyneside. The arrangement is the standard model under the previous government's initiative, Building Schools for the Future (BSF), which aimed to rebuild or substantially refurbish all secondary schools in England.

The government's Spending Review confirmed the remaining BSF funding required to develop Thomas Hepburn and Heworth Grange Secondary Schools, but also confirmed that potential future BSF funding for additional schools was no longer available, including £80m previously awarded to rebuild or refurbish a number of secondary schools (Whickham, St Thomas More, Joseph Swan and a school in the west of Gateshead).

12 http://online.gateshead.gov.uk/docushare/dsweb/View/Collection-3338

South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. In April 2011 the partnership, led by Gateshead, signed a £727m PFI funded contract with a consortium led by SITA UK. The contract is focussed on the development of an energy-from-waste facility on Teesside which will treat 190,000 tonnes a year of waste generated by the three councils.

The facility is expected to be operational in 2014.

Housing Market Renewal (HMR)

Gateshead and Newcastle Councils have worked in partnership with Bridging NewcastleGateshead (BNG), a Housing Market Renewal (HMR) Pathfinder set up by the government in 2002, to tackle issues of low housing demand and provide better quality and choice of housing in the urban core of the region. Funding of £29m was originally announced for the partnership for 2010/11 but this was subsequently reduced to £24m following the government's Spending Review. It was also announced that 2010/11 would be the final year of HMR funding and as a result BNG closed on 11 April 2011. The Council is planning to continue the good work of the partnership by delivering some of the projects originally earmarked for HMR from the Council's Capital Programme in 2011/12.

HMR Joint Venture

At its meeting on 17 June 2008, Cabinet approved the procurement of a joint venture limited liability partner to work alongside the Council with the overall remit to manage and deliver housing regeneration across the borough.

The procurement of the joint venture partner was conducted through the public procurement directives competitive dialogue process. During 2010/11, the Council moved from the invitation to continue dialogue (ITCD) stage of the procurement process to the appointment in April 2011 of the chosen partner Evolution Gateshead, a consortium of Home Group and Galliford Try. Over the next 15 to 20 years, the partnership will build approximately 2,400 new homes, including affordable housing, on 19 different sites in Gateshead.

Material Assets and Liabilities

As at 31 March 2011, the Council holds £1,424.242m of long-term assets, £144.666m of current assets, £148.546m of current liabilities and £954.614m of long-term liabilities.

Long-term assets have reduced by £254.172m, largely due to:

- A reduction of £242.999m in property, plant and equipment, mainly as a result of downward revaluations of the Council's housing stock and schools. In 2010/11, there was a material change in the adjustment factor applied to the valuation of Council dwellings, falling from 51% to 37% of net book value for the North East of England, resulting in a downward revaluation of £318m being charged to the Comprehensive Income and Expenditure Statement during 2010/11;
- A decrease of £10.149m in long-term investments reflecting the Council's Treasury Management Strategy to limit investments to periods of less than 12 months to increase liquidity of funds in response to the banking crisis; and
- A reduction of £1.557m in long-term debtors, mainly due to a principal repayment of airport loan notes.

Current assets have decreased by £24.190m, reflecting the following:

- A decrease of £18.203m in short-term investments, reflecting the application of some of these funds to support the capital programme and delay borrowing due to the difference between borrowing costs relative to the return on investments;
- A reduction of £4.810m in short-term debtors; and
- A decrease of £2.863m in cash and cash equivalents due to the application of internal funds to support the capital programme as outlined above.

The Council's current liabilities have increased by £4.661m, mainly reflecting the inclusion of a £25.242m provision, which the move to IFRS required be reclassified from long-term liabilities, offset by a reduction of £5.305m in short-term borrowing reflecting the maturity profile of the borrowing and a reduction of £11.203m in short-term creditors due in part to the action taken during the year to reduce non-essential spending.

Long-term liabilities have reduced by £48.025m, mainly reflecting reductions of £14.570m in provisions due to a reclassification under IFRS to current liabilities, and £117.573m in other long-term liabilities following changes in actuarial valuations and assumptions in relation to pension liabilities. These reductions were offset by an increase of £86.260m in long-term borrowing, mainly due to increased borrowing to fund the Council's and the Gateshead Housing Company's capital programme, to take advantage of the higher approved borrowing allocation.

In accordance with IAS19 the Council's pension liability is also recorded in the Balance Sheet. A full description of the Council's material assets and liabilities is provided in the Notes to the Core Financial Statements.

Cost of Pensions

Council employees are members of the Tyne and Wear Pension Fund, administered by South Tyneside Council. The Council makes employer contributions on the basis of an agreed percentage of its employees' contributions to the Tyne and Wear Pension Fund, based on an independent actuarial revaluation of the fund every three years. It also has to meet the pension costs of employees who have left employment due to ill health or where early retirements have been agreed, on the basis of a clear business case, and also makes additional contributions to make good the shortfall in the pension fund, known as deficiency payments.

Teachers employed by the Council are part of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). The Council makes contributions based on a percentage of the member's pensionable salaries. The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities of the scheme attributable to its own employees.

Accounting for Pensions

Both the Tyne and Wear Pension Fund, part of the Local Government Pension Scheme, and the Teachers' Pension Scheme are classified as defined benefit schemes, and accounted for in accordance with the requirements of International Accounting Standard 19 (IAS19).

IAS19 is an accounting standard based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the Pension Fund assets and liabilities in the accounts does not mean that legal title or obligation has passed from the Pension Fund administrator to the employer. Instead, it represents the employer's

commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit through reduced contributions from a surplus in the Pension Fund.

The last full actuarial valuation of the Tyne and Wear Pension Fund was carried out as at 31 March 2010 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31 March 2011. An assessment has also been made on the impact on scheme members leaving under voluntary redundancy. The Council's actuary has undertaken a full valuation of the LGPS pension benefits to accurately calculate a curtailment arising from a significant number of redundancies that have occurred, or to which the Council has become demonstrably committed, over the accounting period.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and in reality, as the Council is making the necessary pension deficiency payments to address any assessed shortfall in the Pension Fund by the actuary over time, then the Balance Sheet net worth is in effect reporting future years deficits, which are being addressed.

The reported financial health of the Council is consequently being affected by the accounting requirements of IAS19. However, the Pensions Reserve deficit reflected in the Balance Sheet, as assessed by the actuary as at 31 March 2011, is being addressed by the Council in line with government regulations whereby a period of 22 years has been agreed to correct the deficit position. The Council can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

Material Charges and Credits in the Accounts

The Comprehensive Income and Expenditure Statement includes the following material charges and credits:

- A downward revaluation of £318m is included as a charge in the Local Authority Housing (HRA) line, reflecting a material change in the adjustment factor applied to the valuation of Council dwellings, falling from 51% to 37% of net book value for the North East of England;
- Downward revaluation charges of £14.3m are included in Children's and Education Services, reflecting a material change in the valuation of schools;
- A credit of £112.27m is included in the Non-Distributed Costs line following changes in actuarial valuations and assumptions in relation to pension liabilities. With effect from 1 April 2011, increases to local government pensions in payment and deferred pensions will be linked to annual increases in the Consumer Price Index (CPI), rather than the Retail Prices Index (RPI). Since, over the long-term CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the defined benefit obligation on the Balance Sheet. The change also reduces this (and future) periods' current service cost and interest cost; and
- A £11.502m charge is included within the relevant cost of service in relation to the cost of voluntary redundancy for those employees who left the Council or received a formal offer by 31 March 2011. In addition, a provision of £10m is charged under Exceptional Items in relation to an estimate of the cost of those employees who will leave the Council's employment under voluntary redundancy by 30 June.

Significant Changes since 2009/10

The UK GAAP-based SORP[13] used to prepare previous statements of accounts has been replaced by the IFRS-Based Code of Practice on Local Authority Accounting, which has

[13] CIPFA's Code of Practice on Local Government Accounting in the United Kingdom 2009: A Statement of Recommended Practice

resulted in a number of significant changes to the format and content of the statements and in accounting practice. Appendix 1 details the key accounting changes[14] which include:

- Grants and contributions for capital purposes are now recognised as income immediately rather than being deferred and released to revenue to match depreciation;
- The main financial statements have changed, including a new core financial statement (the Movement in Reserves Statement);
- There are additional requirements regarding segmental reporting;
- There is greater emphasis on accounting for the various components of an asset and their replacement;
- Property leases are classified and accounted for as separate leases of land and buildings. Local authorities also need to assess whether other arrangements contain the substance of a lease;
- Investment properties are measured at fair value, with gains and losses recognised in surplus or deficit rather than through the Revaluation Reserve;
- Impairment losses are now taken initially to the Revaluation Reserve to the extent that there is a balance on that reserve relating to the specific asset;
- The Code introduces a new classification of non current assets held for sale. Specific criteria apply to this classification; and
- All employee benefits are now accounted for as they are earned by the employee. This requires accruals for items such as holiday pay.

Prospects for 2011/12 and Beyond

The Local Government Finance Settlement[15] covering the two year period 2011/12 to 2012/13 was confirmed on 31 January 2011. The government plans to make changes to the local government finance system for 2013/14 and will begin a review of local government funding in 2011. The Council's formula grant for 2011/12 has reduced by £13.724m, equivalent to 11.5% when compared to the 2010/11 adjusted grant. This is well above the national average of 9.9% despite the Council being in the top 15% of deprived authorities. The provisional formula grant for 2012/13 reduces by a further £8.032m (7.6%). In addition to this, a number of targeted funding streams have been withdrawn completely, the most significant being Working Neighbourhood Fund, Housing Market Renewal and a number of education-related grants.

For the financial year 2011/12, the Council has approved a net revenue budget of £204.865m and council tax at the headline rate of band D of £1,443.20 (excluding precepts), no increase from the previous year. The budget reflects the Council's recognition that it will not be able to continue to resource existing levels of service without putting an extra burden on council taxpayers and includes £32.7m budget savings which were identified to minimise the impact on frontline services.

The budget savings planned for 2011/12 include a total of 650 voluntary redundancies (VR) providing an estimated permanent saving of £15.7m for the revenue budget. The Council made an offer of voluntary redundancy to all employees with the exception of those working in schools.

The Council approved a capital programme of £94m for 2011/12, with the level of investment over the three years to 2013/14 forecast to be £178m. The programme includes projects that are essential from a health and safety or statutory perspective to maintain delivery of key

[14] Note 3 to the core financial statements documents the numerical changes that have been made to the accounts
[15] http://www.local.communities.gov.uk/finance/1112/grant.htm

services, projects that the Council has made a previous commitment to fund and remain to be high priority, schemes that attract significant external funding and also new schemes that release efficiencies and are key to delivering Vision 2030. Despite the current pressure on resources this is still a significant level of investment and reflects continued improvement in the Council's assets. It also continues the local support to the economy as part of the Ten Point Plan.

The capital programme provides for ongoing commitments of £75.9m including £28.3m on housing projects which will help to complete the decent homes programme, £6.0m on Building Schools for the Future, £2.0m on carbon management projects, £4.4m on the Northern Design Centre and a further £5.0m for the development of Gateshead Quays. The budget also provides for new schemes amounting to £15.7m, which includes expenditure of over £5.0m to support the redevelopment of Bensham and Saltwell as part of the Housing Joint Venture and £3.2m to develop social housing at Brandling.

The projected level of prudential borrowing required in 2011/12 amounts to £48m, with £27m being funded from the General Fund. This level of borrowing will result in an increase of over £1.9m in interest costs charged to the General Fund in 2011/12.

The amount of prudential borrowing available to fund the HRA capital programme is restricted by self financing regulations which place a cap on the level of prudential borrowing that is allowed. The HRA programme is dependant upon a further £21.1m prudential borrowing from CLG to increase the proposed debt cap for Gateshead in order to accommodate the planned level of investment for 2011/12. There will be no opportunities for prudential borrowing for a number of years beyond 2011/12 until existing debt can be repaid.

The reform of council housing finance was the government's Coalition Agreement commitment which is to be implemented in April 2012. The current Housing Revenue Account (HRA) subsidy system will continue until then, at which point it will be replaced by self financing for council housing.

The objective of these reforms is to provide local authorities with the resources and flexibility to manage their own housing stock for the long term and to drive up quality and efficiency. Tenants should also benefit from a transparent system whereby the rent a landlord collects has a clear relationship to the services they provide. Self-financing will put all local authority landlords in the position where they can support their own stock from their own income. In order to bring about this change, there will be a one off readjustment of each local authority's housing debt.

These reforms will have major implications for the operation and management of the HRA. The Council and the Gateshead Housing Company are working jointly to prepare a 30-year business plan to support the implementation of self-financing.

Further details of the Council's expenditure plans for 2011/12 are set out in the Budget Plan[16].

The resources available to achieve the Council's key priorities are contained in the Council's current Medium Term Financial Strategy (MTFS), which is part of the Corporate Plan[17].
The MTFS sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030, the Sustainable Community Strategy[18] for

[16] http://www.gateshead.gov.uk/Council%20and%20Democracy/finance/budget.aspx
[17] http://www.gateshead.gov.uk/DocumentLibrary/council/strategy/finance/MediumTermFinancialStrategy201011-201213.pdf
[18] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-18230/Item+09b+-+Vision+2030+document.doc.pdf

Gateshead. The MTFS describes the financial direction of the Council and outlines the financial pressures over a three year period.

Medium term financial planning continues to be difficult and takes place against the background of unique funding cuts for local government. The Spending Review[19] on 20 October 2010 outlined significant cuts to local government funding over the next four years to 2014/15. In addition, the Council, in common with most local authorities, continues to be at risk from financial pressures, including equal pay, workforce management, waste management and demand for social care. This environment will challenge the ability of the Council to respond to the needs of the community of Gateshead if eliminating the public sector deficit destabilises the North East economy.

A key part of the MTFS is the Council's Fit for Future Programme. Fit For Future is a programme to transform the Council into a more efficient and effective organisation and protect as far as possible frontline services.

A plan for reviewing how all activity in the Council is carried out has been developed as part of the Fit for Future programme[20]. There are two types of review, operational and cross cutting, using the same methodology. Operational reviews are looking at one function or service and cross cutting reviews are looking at services which have something in common and can be reviewed together.

Further Information

This publication provides a review of the financial performance of the Council for 2010/11. Given the complexity of these accounts, a set of summary accounts has been produced and published on the Council's website[21]. These will also be included in the Council's Annual Report. Comments will be invited on the usefulness and readability of this summary document.

Signed: Date: 30/6/11

D V Coates BA CPFA IRRV
Strategic Director, Finance & ICT and **Chief Financial Officer**

19 http://hm-treasury.gov.uk/spend_index.htm
20 http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-24948/Item+09+-+Fit+For+Future+Programme.doc
21 http://www.gateshead.gov.uk/Council%20and%20Democracy/finance/home.aspx

Statement of Responsibilities

The Council's Responsibilities
The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director, Finance & ICT;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Strategic Director, Finance & ICT's Responsibilities
The Strategic Director, Finance & ICT is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Director, Finance & ICT has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Strategic Director, Finance & ICT has also:

- kept proper accounting records which are up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Finance Officer's Certificate
I hereby certify that the Statement of Accounts for the year ended 31 March 2011, required by the Accounts and Audit (England) Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2011 and of its income and expenditure for the year ended 31 March 2011.

Signed: Date: 30/6/11

D V Coates BA CPFA IRRV
Strategic Director, Finance & ICT and **Chief Financial Officer**

Part 2: Core Financial Statements

Comprising:

- **Movement in Reserves Statement**
- **Comprehensive Income and Expenditure Statement**
- **Balance Sheets as at 31 March 2009, 2010 and 2011**
- **Cash Flow Statement**
- **Notes to the Core Financial Statements**

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes. The 'net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2010/11 movements:	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2010		**(28,412)**	**(49,812)**	**(16,854)**	**0**	**(3,328)**	**(29,799)**	**(128,205)**	**(572,541)**	**(700,746)**
(Surplus) or deficit on provision of services		(72,729)	0	327,474	0	0	0	254,745	0	254,745
Other Comprehensive (Income) and Expenditure	16a	0	0	0	0	0	0	0	(19,747)	(19,747)
Total Comprehensive (Income) and Expenditure		**(72,729)**	**0**	**327,474**	**0**	**0**		**254,745**	**(19,747)**	**234,998**
Adjustments between accounting basis & funding basis under regulations	16b	100,353	0	(326,947)	0	2,877	6,758	(216,959)	216,959	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves		**27,624**	**0**	**527**	**0**	**2,877**	**6,758**	**37,786**	**197,212**	**234,998**
Transfers (to) / from Earmarked Reserves	16b 16c	(26,097)	26,097	0	0	0	0	0	0	0
(Increase) or Decrease in Year		**1,527**	**26,097**	**527**	**0**	**2,877**	**6,758**	**37,786**	**197,212**	**234,998**
Balance as at 31 March 2011		**(26,885)**	**(23,715)**	**(16,327)**	**0**	**(451)**	**(23,041)**	**(90,419)**	**(375,329)**	**(465,748)**

2009/10 movements:	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2009		**(22,297)**	**(64,253)**	**(18,191)**	**(2,616)**	**(3,957)**	**(11,248)**	**(122,562)**	**(764,853)**	**(887,415)**
(Surplus) or deficit on provision of services		7,693	0	64,215	0	0	0	71,908	0	71,908
Other Comprehensive (Income) and Expenditure	16a	(491)	500	0	0	0	(107)	(98)	114,859	114,761
Total Comprehensive (Income) and Expenditure		**7,202**	**500**	**64,215**	**0**	**0**	**(107)**	**71,810**	**114,859**	**186,669**
Adjustments between accounting basis & funding basis under regulations	16b	(142)	230	(62,342)	2,616	629	(18,444)	(77,453)	77,453	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves		**7,060**	**730**	**1,873**	**2,616**	**629**	**(18,551)**	**(5,643)**	**192,312**	**186,669**
Transfers (to) / from Earmarked Reserves	16b 16c	(13,175)	13,711	(536)	0	0	0	0	0	0
(Increase) or Decrease in Year		**(6,115)**	**14,441**	**1,337**	**2,616**	**629**	**(18,551)**	**(5,643)**	**192,312**	**186,669**
Balance as at 31 March 2010		**(28,412)**	**(49,812)**	**(16,854)**	**0**	**(3,328)**	**(29,799)**	**(128,205)**	**(572,541)**	**(700,746)**

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10				2010/11			
Gross Exp.	Gross Income	Net Exp.	Service	Gross Exp.	Gross Income	Net Exp.	Notes
£000s	£000s	£000s		£000s	£000s	£000s	
7,073	(3,453)	3,620	Central services to the public	8,059	(3,880)	4,179	
93,541	(35,216)	58,325	Cultural, environmental, regulatory & planning services	108,506	(28,698)	79,808	
224,134	(173,351)	50,783	Children's & education services	246,790	(177,798)	68,992	
18,859	(2,286)	16,573	Highways & transport services	23,911	(8,037)	15,874	
133,648	(83,011)	50,637	Local authority housing (HRA)	380,869	(68,495)	312,374	
79,339	(71,454)	7,885	Other housing services	85,898	(75,667)	10,231	
101,489	(34,811)	66,678	Adult social care	105,326	(32,891)	72,435	
12,639	0	12,639	Exceptional items	10,000	0	10,000	6
9,592	(1,332)	8,260	Corporate & democratic core	6,927	(98)	6,829	
5,827	0	5,827	Non-distributed costs	(110,312)	0	(110,312)	
686,141	**(404,914)**	**281,227**	**Cost of Services**	**865,974**	**(395,564)**	**470,410**	5
		12,866	Other operating expenditure			12,885	15b
		48,364	Financing and investment income & expenditure			43,295	15b
		(270,549)	Taxation and non-specific grant income			(271,845)	15b
		71,908	**(Surplus) or Deficit on Provision of Services**			**254,745**	
		(3,039)	(Surplus) or deficit on revaluation of non-current assets			(12,117)	16
		117,480	Actuarial (gains) or losses on pension assets & liabilities			(7,630)	25
		320	Other (gains) or losses			0	
		114,761	**Other Comprehensive (Income) and Expenditure**			**(19,747)**	
		186,669	**Total Comprehensive (Income) and Expenditure**			**234,998**	

Balance Sheets as at 31 March 2009, 2010 and 2011

The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

The second category, unusable reserves, are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

31/03/09 £000s		31/03/10 £000s	31/03/11 £000s	Notes
1,645,030	Property, plant & equipment	1,664,396	1,421,397	18
263	Investment property	148	148	19
311	Intangible assets	435	968	20
3,881	Long-term investments	10,713	564	23
1,752	Long-term debtors	2,722	1,165	26
1,651,237	**Long-Term Assets**	**1,678,414**	**1,424,242**	
110,352	Short-term investments	110,353	92,150	23
1,233	Assets held for sale	701	701	21
1,006	Inventories	190	1,097	
3,080	Construction contracts	2,255	3,034	
54,903	Short-term debtors	47,779	42,969	26
0	Cash and cash equivalents	7,578	4,715	27
170,574	**Current Assets**	**168,856**	**144,666**	
(16,026)	Cash and cash equivalents	0	0	27
(31,697)	Short-term borrowing	(53,451)	(48,146)	23
(2,094)	Provisions	(14,442)	(21,169)	29
(59,370)	Short-term creditors	(90,434)	(79,231)	28
(109,187)	**Current Liabilities**	**(158,327)**	**(148,546)**	
(47,581)	Long-term creditors	(46,989)	(44,759)	28
(4,634)	Provisions	(4,670)	(4,542)	29
(393,175)	Long-term borrowing	(426,712)	(512,972)	23
(378,914)	Other long-term liabilities	(508,691)	(391,118)	28
(905)	Capital grants receipts in advance	(1,135)	(1,223)	
(825,209)	**Long-term Liabilities**	**(988,197)**	**(954,614)**	
887,415	**Net Assets**	**700,746**	**465,748**	

31/03/09 £000s		31/03/10 £000s	31/03/11 £000s	Notes
	Usable Reserves:			16
(3,957)	Capital Receipts Reserve	(3,328)	(451)	
(11,248)	Capital Grants Unapplied	(29,799)	(23,041)	
	General Fund:			
(11,444)	General Reserve	(17,505)	(15,994)	
(10,853)	LMS Budget Share Reserve	(10,907)	(10,891)	
(18,191)	Housing Revenue Account	(16,854)	(16,327)	
(63,194)	Earmarked Reserves	(49,253)	(23,156)	
(1,059)	Newcastle Airport Reserve	(559)	(559)	
(2,616)	Major Repairs Reserve	0	0	
	Unusable Reserves:			16
(16,383)	Revaluation Reserve	(20,088)	(31,203)	
(1,139,634)	Capital Adjustment Account	(1,073,050)	(746,263)	
9,549	Financial Instrument Adjustment Account	7,298	5,835	
0	Equal Pay Back Pay Account	2,700	2,700	
(1,340)	Deferred Capital Receipts Reserve	(2,600)	(2,473)	
(918)	Collection Fund Adjustment Account	(130)	458	
4,959	Accumulated Absences Account	4,637	4,499	
378,914	Pensions Reserve	508,692	391,118	
(887,415)	**Total Reserves**	**(700,746)**	**(465,748)**	

Signed: D Coates Date: 30/6/11

D V Coates BA CPFA IRRV
Strategic Director, Finance & ICT and **Chief Financial Officer**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2009/10 £000s		2010/11 £000s	Notes
71,908	**Net (surplus) or deficit on the provision of services**	254,745	
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:		
(42,219)	Depreciation of non-current assets	(38,566)	
(82,170)	Impairment of non-current assets	(351,380)	
(171)	Amortisation of intangible non-current assets	(343)	
(11,682)	Pension adjustments	110,295	
0	Impairment losses on loans & advances debited to the CIES in year	(385)	
(336)	Increase/decrease in impairment for provision for bad debts	13	
(12,384)	Contributions to provisions	3,401	
(959)	Carrying amount of PP&E, investment property and intangible assets sold	(1,656)	
2,736	Non-cash component of trading operation results	(2,210)	
(13,504)	Other non-cash movement	(23,502)	
(160,689)		(304,333)	
	Accruals adjustments:		
(1,641)	Decrease/(increase) in inventories	1,686	
(6,483)	Decrease/(increase) in debtors	(6,061)	
(1,909)	(Decrease)/increase in interest debtors	6	
(31,064)	Decrease/(increase) in creditors	11,203	
(85)	(Decrease)/increase in interest creditors	(1,150)	
(41,182)		5,684	
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:		
1,437	Proceeds from the disposal of PP&E, investment property and intangible assets	2,437	
60,616	Capital grants credited to surplus or deficit on the provision of services	56,703	11
62,053		59,140	
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:		
(20,726)	Reversals of amounts disclosed separately below	(24,530)	

2009/10 £000s		2010/11 £000s	Notes
	Cash flows from operating activities includes the following items:		
24,325	Interest paid	25,987	
(3,599)	Interest received	(1,457)	
20,726		24,530	
(67,910)	**Net cash flows from operating activities**	15,236	
	Net cash flows from investing activities:		
140,948	Purchase of property, plant & equipment, investment property and intangible assets	137,361	
1,018,718	Purchase of short term and long term investments	461,791	
12,223	Other payments for investing activities	16,099	
(1,473)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(2,437)	
(1,010,440)	Proceeds from the sale of short term and long term investments	(490,182)	
(60,616)	Capital grants received (government)	(55,836)	11
(620)	Other receipts for investing activities	(310)	
98,740	**Net cash flows from investing activities**	66,486	
	Net cash flows from financing activities:		
(100,000)	Cash receipts of short and long term borrowing	(120,500)	
(144)	Other receipts from financing activities	0	
916	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	946	
44,794	Repayment of short and long term borrowings	40,695	
(54,434)	**Net cash flows from financing activities**	(78,859)	
(23,604)	**Net (increase)/ decrease in cash and cash equivalents**	**2,863**	

(16,026)	**Cash and cash equivalents at the beginning of the period**	**7,578**	
7,578	**Cash and cash equivalents at the end of the period**	**4,715**	27

Notes to the Core Financial Statements

1. Authorisation of accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2011 will be approved by the Accounts Committee and authorised for issue by the Leader of the Council in September 2011. The unaudited Balance Sheet was signed by the Chief Financial Officer on 30 June 2011.

2. Explicit statement of compliance with international accounting standards

The Council's Statement of Accounts has been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, as they apply to the Council for the year ended 31 March 2011.

3. Impact of changes in accounting policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period (see Note 6).

The key changes to the accounts since 2009/10, made as a result of the transition to IFRS, are disclosed in Appendix 1. Any numerical changes to the Balance Sheet and the Comprehensive Income and Expenditure Statement are detailed in Note 4 below.

4. Transitional arrangements

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions in both 2008/09 and 2009/10, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

Appendix 1 contains full narrative descriptions of all changes between the SORP and the Code, and the key impacts on the Council's Statement of Accounts. The following tables explain the material differences between the amounts presented in the 2009/10 financial statements (including 2008/09 comparative Balance Sheet figures) and the equivalent amounts presented in the 2010/11 financial statements:

Transitional Adjustments (08/09 Balance Sheet)	Original 2008/09 £000s	Non current assets	Employee benefits	Capital grants	Gov't grants deferred	Investment properties	Non-IFRS	Restated 2008/09 £000s
Property, plant & equipment	**1,617,144**	24,643	0	0	0	(4)	3,247	**1,645,030**
Investment property	**0**	0	0	0	0	263		**263**
Non-operational assets	**32,541**	(32,541)	0	0	0	0	0	**0**
Assets held for sale	**1,178**	55	0	0	0	0	0	**1,233**
Short term debtors	**54,903**	0	0	0	0	0	0	**54,903**
Short term creditors	**(64,769)**	0	(4,959)	11,492	0	0	(1,134)	**(59,370)**
Government grants deferred	**(238,148)**	0	0	0	238,148	0	0	**0**
Deferred capital receipts	**(1,340)**	0	0	0	0	0	0	**(1,340)**
Capital grants receipts in advance	**0**	0	0	(244)	0	0	(661)	**(905)**
Capital Grants Unapplied	**0**	0	0	(11,248)	0	0	0	**(11,248)**
Revaluation Reserve	**(18,455)**	692	0	0	0	0	1,380	**(16,383)**
Capital Adjustment Account	**(903,751)**	6,888	0	0	(238,148)	4	(4,627)	**(1,139,634)**
Accumulated Absences Account	**0**	0	4,959	0	0	0	0	**4,959**

Transitional Adjustments (09/10 Balance Sheet)	Original 2009/10 £000s	08/09 changes above	Non current assets	Employee benefits	Capital grants	Gov't grants deferred	Leases	Non-IFRS	Restated 2009/10 £000s
Property, plant & equipment	**1,648,504**	27,886	169	0	0	0	(3,460)	(8,703)	**1,664,396**
Investment property	**0**	263	(115)	0	0	0	0	0	**148**
Assets held for sale	**0**	55	646	0	0	0	0	0	**701**
Lon- term debtors	**1,459**	0	0	0	0	0	1,263	0	**2,722**
Short-term debtors	**46,221**	0	0	0	1,646	0	0	(88)	**47,779**
Short-term creditors	**(93,375)**	5,399	0	322	21,991	(4,998)	0	(19,773)	**(90,434)**
Government grants deferred	**(265,716)**	238,148	0	0	0	27,568	0	0	**0**
Long-term creditors	**(46,720)**	0	0	0	0	0	(269)	0	**(46,989)**
Capital grants receipts in advance	**0**	(905)	0	0	(230)	0	0	0	**(1,135)**
Capital Receipts Reserve	**(3,328)**	0	0	0	0	0	0	0	**(3,328)**
Capital Grants Unapplied	**0**	(11,248)	0	0	(23,637)	4,998		88	**(29,799)**
Revaluation Reserve	**(24,417)**	2,072	1,648	0	0	0	609	0	**(20,088)**
Capital Adjustment Account	**(821,613)**	(235,883)	192	0	0	(27,569)	3,120	8,703	**(1,073,050)**
Accumulated Absences Account	**0**	4,959	0	(322)	0	0	0	0	**4,637**

Transitional Adjustments (09/10 Comprehensive Income and Expenditure Statement)									
	Original 2009/10 £000s	Non current assets	Employee benefits	Capital grants	Gov't grants deferred	Investment properties	Leases	Non-IFRS	**Restated 2009/10 £000s**
Central services to the public	**3,159**	217	(21)	0	262	14	(11)	0	**3,620**
Cultural, environmental, regulatory & planning services	**55,389**	(65)	(28)	0	2,880	0	149	0	**58,325**
Children's & education services	**42,625**	(4)	(220)	0	3,868	(12)	0	4,526	**50,783**
Highways and transport services	**15,015**	0	(3)	0	1,561	0	0	0	**16,573**
Local authority housing (HRA)	**50,595**	0	(3)	0	45	0	0	0	**50,637**
Other housing services	**567**	0	(1)	0	7,319	0	0	0	**7,885**
Adult social care	**66,583**	0	(24)	0	119	0	0	0	**66,678**
Non-Distributed Costs	**1,650**	0	0	0	0	0	0	4,177	**5,827**
Other Operating Expenditure	**12,866**	0	0	0	0	0	0	0	**12,866**
Financing and Investment Income and Expenditure	**48,421**	0	(22)	0	0	12	(47)	0	**48,364**
Taxation and Non-Specific Grant Income	**(208,375)**	0	0	(23,637)	(38,625)	0	0	88	**(270,549)**
Surplus/deficit on revaluation of non-current assets	**(6,743)**	1,678	0	0	0	0	2,375	(349)	**(3,039)**
Other gains or losses	**(1,070)**	0	0	0	0	0	0	1,390	**320**

Note 1: Transitional figures have not been included for the Movement in Reserves Statement, (MiRS) as this is a new requirement i.e. no MiRS was produced in 2009/10 under SORP rules; as such, no comparative figures can be provided.

Note 2: No changes to the Cash Flow Statement have been noted.

Note 3: Non-current asset categories *property, plant and equipment*, i*nvestment properties* and a*ssets held for sale* are not directly comparable with fixed asset categories under the SORP. For the above analysis, a number of approximations have been made.

5. Segmental analysis

This note reports revenues against budgets analysed in line with the Council's internal management reporting arrangements and reconciles this with the Comprehensive Income and Expenditure Statement. The format of the information is in line with the quarterly reports received by the Council's Cabinet:

Segmental Analysis

2009/10				2010/11				
Net Exp. £000s	Budget £000s	Variance from Budget £000s	Service	Gross Income £000s	Gross Exp. £000s	Net Exp. £000s	Net Budget £000s	Variance from Budget £000s
			Learning & Children					
0	0	0	Individual Schools Budget	0	95,225	95,225	95,225	0
0	0	0	Dedicated Schools Grant	(108,335)	0	(108,335)	(108,335)	0
18,806	19,047	(241)	Centrally held DSG	0	13,110	13,110	13,110	0
0	0	0	Access & Inclusion	(1,002)	4,659	3,657	3,731	(74)
0	0	0	Raising Achievement	(7,106)	9,643	2,537	2,493	44
0	0	0	Children & Young Peoples	(2,660)	7,479	4,819	5,822	(1,003)
0	0	0	Early Years	(7,592)	7,870	278	514	(236)
19,201	19,208	(7)	Children & Families	(3,456)	23,431	19,975	19,660	315
957	990	(33)	Youth Offending Team	(1,034)	2,133	1,099	1,163	(64)
6,040	6,406	(366)	Business Support	(10,773)	16,130	5,357	4,850	507
45,004	**45,651**	**(647)**		**(141,958)**	**179,680**	**37,722**	**38,233**	**(511)**
			Community Based Services					
58,832	54,957	3,875	Adults' Social Services	(32,159)	93,087	60,928	56,105	4,823
0		0	Business Support Services	(99)	1,730	1,631	1,815	(184)
6,625	6,599	26	Libraries & Arts	(797)	7,387	6,590	6,606	(16)
7,377	7,308	69	Sport & Leisure	(5,657)	12,718	7,061	6,881	180
(748)	(102)	(646)	Housing General Fund	(75,812)	79,746	3,934	4,399	(465)
3,201	3,297	(96)	Community Support	(1,212)	5,633	4,421	4,817	(396)
75,287	**72,059**	**3,228**		**(115,736)**	**200,301**	**84,565**	**80,623**	**3,942**
			Development & Enterprise					
8,190	8,214	(24)	Highways & Transport	(4,912)	8,798	3,886	4,810	(924)
3,536	3,298	238	Development & Public Prot'n	(2,143)	4,876	2,733	2,169	564
1,975	1,863	112	Environment & Regeneration	(975)	3,122	2,147	2,000	147
(800)	(704)	(96)	Property & Design	(8,604)	6,260	(2,344)	(2,002)	(342)
2,757	3,114	(357)	Economic Development	(2,322)	5,180	2,858	2,641	217
279	481	(202)	Design	0	0	0	0	0
0	(24)	24	Review & Support	0	0	0	0	0
15,937	**16,242**	**(305)**		**(18,956)**	**28,236**	**9,280**	**9,618**	**(338)**
26,244	**25,187**	**1,057**	**Local Environmental Serv.**	**(30,605)**	**65,059**	**34,454**	**33,910**	**544**
			Central Services					
2,865	3,143	(278)	Chief Executives & Comms	(585)	4,851	4,266	4,296	(30)
6,116	6,152	(36)	Legal, HR & Corporate Proc.	(3,415)	11,695	8,280	8,243	37
11,495	11,593	(98)	Finance & ICT	(5,316)	20,034	14,718	14,864	(146)
6,314	6,091	223	Customer & Building Services			0		0
14,718	17,554	(2,836)	Other Services/Contingencies	0	19,210	19,210	18,693	517
41,508	**44,533**	**(3,025)**		(9,316)	55,790	46,474	46,096	378
17,054	**21,681**	**(4,627)**	**Capital Financing Costs**	**0**	**21,493**	**21,493**	**22,280**	**(787)**
(1,599)	**(5,114)**	**3,515**	**Investment Income**	**(1,047)**	**0**	**(1,047)**	**(196)**	**(851)**
(9,652)	**(9,687)**	**35**	**Support Services**	**(10,901)**	**0**	**(10,901)**	**(10,616)**	**(285)**
209,783	**210,552**	**(769)**	**Sub Total before Levies**	(328,519)	550,559	222,040	219,948	2,092
12,491	**12,491**	**0**	**Total Levies**	**0**	**12,641**	**12,641**	**12,641**	**0**
222,274	**223,043**	**(769)**	**Net Spend before Financing**	(328,519)	563,200	234,681	232,589	2,092
(219,189)	**(222,043)**	**2,854**	**Financing**	**(229,863)**	**0**	**(229,863)**	**(230,589)**	**726**
3,085	**1,000**	**2,085**	**Net Spend**	**(558,382)**	**563,200**	**4,818**	**2,000**	**2,818**

The following tables provide a reconciliation of the above table with amounts presented in the Comprehensive Income and Expenditure Statement:

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement		
2009/10		2010/11
Net Exp.	Service	Net Exp.
230,747	Cost of Services in Service Analysis	234,681
88,726	Amounts not included in the analysis but included in the Comprehensive Income & Expenditure Statement (CIES)	276,277
(37,540)	Amounts included in the analysis but not included in the CIES	(40,467)
(706)	Other	(81)
281,227	**Net Cost of Services**	**470,410**

Reconciliation between the Segmental Reporting Analysis and an Analysis of Total Income & Expenditure (Subjective Analysis)									
2009/10		2010/11							
Total	Service	Service Analysis	Not reported in service accounts	Not included in CI&E	Other	Support services re-allocation	Net Cost of Services	Corporate Amounts	Total
(291,509)	Government grants & contributions	(241,930)	0	0	0	0	(241,930)	(36,572)	**(278,502)**
(26,161)	Other grants	(31,012)	0	0	0	0	(31,012)	(56,703)	**(87,715)**
(52,807)	Customer & client receipts	(51,324)	0	0	0	0	(51,324)	0	**(51,324)**
(47)	Interest received	(1,116)	0	813	0	0	(303)	0	**(303)**
(18,456)	Internal recharges	(27,629)	0	0	0	0	(27,629)	0	**(27,629)**
(19,616)	Misc recharges	(10,973)	0	0	0	0	(10,973)	0	**(10,973)**
(2,150)	Investment income	0	0	0	0	0	0	(1,524)	**(1,524)**
(84,351)	Council tax	0	0	0	0	0	0	(86,173)	**(86,173)**
(84,717)	NNDR	0	0	0	0	0	0	(92,397)	**(92,397)**
(579,814)	**Total income**	(363,984)	0	813	0	0	(363,171)	(273,369)	**(636,540)**
260,034	Employee expenses	267,393	(102,738)	(712)	0	11,535	175,478	12,310	187,788
25,123	Premises	28,845	0	0	0	0	28,845	0	28,845
13,357	Transport	15,319	0	0	0	0	15,319	0	15,319
51,430	Supplies & services	60,326	(1,948)	0	0	0	58,378	0	58,378
163,951	Third party / transfer payments	177,185	0	(4,012)	0	0	173,173	0	173,173
7,491	Support services	12,919	0	(1,384)	0	(11,535)	0	0	0
25	Capital financing	21,926	0	(21,493)	0	0	433	0	433
28,174	Capital charges	2,111	68,519	0	0	0	70,630	0	70,630
12,521	Precepts & levies	12,641	0	(12,641)	0	0	0	12,671	12,671
11,726	Trading	0	0	137	0	0	137	2,211	2,348
0	Other	0	0	(1,175)	(81)	0	(1,256)		**(1,256)**
26,705	Interest payable	0	0	0	0	0	0	30,298	30,298
623	Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	995	995
(278)	Gain / loss on disposal of assets	0	0	0	0	0	0	(781)	**(781)**
0	Pensions	0	0	0	0	0	0	0	0
50,840	Housing Revenue Account (HRA)	0	312,444	0	0	0	312,444	0	312,444
651,722	**Total operating expenses**	**598,665**	**276,277**	(41,280)	(81)	0	**833,581**	**57,704**	**891,285**
71,908	**Surplus or deficit on provision of services**	**234,681**	**276,277**	**(40,467)**	**(81)**	**0**	**470,410**	**(215,665)**	**254,745**

6. Exceptional items and prior period adjustments

Exceptional items

Impairments and downward revaluations

The Council values its assets on a five year rolling programme. As part of the 2010/11 rolling programme the Council's schools were revalued, resulting in downward revaluations totalling £18.5m being charged to the Comprehensive Income and Expenditure Statement.

The Council values its council dwellings every year using the Existing Use Value - Social Housing basis and applies a specified adjustment factor as part of this process. In 2010/11 there was a material change in the adjustment factor applied to the valuation of council dwellings, falling from 51% to 37% of net book value for the North East of England, which resulted in a downward revaluation of £318m relating to council dwellings during 2010/11.

Workforce Management

In December 2010, the Council made an offer of voluntary redundancy (VR) to all employees with the exception of those working in schools. The offer was time limited with a view to a number of confirmed leavers by March 2011 with the remainder by 30 June 2011.

For those employees who left the Council's employment by 31 March 2011, the cost of redundancy is included within the service areas within the net cost of services. This totals £11.5m. In addition, an estimate is included for those employees who may leave by 30 June 2011. This estimate is £10m and is included as a separate exceptional item line within the cost of services in the Comprehensive Income and Expenditure Statement.

Employee benefits under IAS19

Past Service Cost

With effect from 1 April 2011, increases to local government pensions in payment and deferred pensions were linked to annual increases in the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI). Since, over the long term CPI increases are expected to be lower then RPI increases, this gives rise to a reduction in the defined benefit obligation on the Balance Sheet.

The Council's actuary, Aon Hewitt Limited, has valued the change at the date of the government's announcement on 22 June 2010 and has measured the past service cost using the assumptions applicable at the previous accounting date. They have allowed for the change to CPI indexation of pension increases as a benefit change and have recognised this as a negative past service cost reflecting the reduction in the constructive obligation.

This change has resulted in the past service cost being reduced from £1.65m to a negative past service cost of £112.27m which has contributed toward the Council's pension liability being reduced by £117.58m to £391.12m.

Voluntary Redundancies

The Council's actuary has undertaken a full valuation of the LGPS pension benefits to accurately calculate a curtailment arising from a significant number of redundancies that have occurred, or to which the Council has become demonstrably committed, over the accounting period. The actuary has measured all the redundancies at the year end on the assumptions prevailing at that date. The pension liability is affected in two ways, giving rise to the curtailment:

- Employees who are over age 55 are entitled to retire immediately with their benefits in the LGPS being paid without penalty for early payment. As a result the pension liability has increased by £1.81m at the accounting date.

- Employees who are under age 55 will become deferred pensioners in the LGPS, with their future benefits being paid from normal retirement date. Their benefits will be increased before retirement in line with Pension Increase Orders which are currently linked to CPI increases. Since the benefits are no longer linked to future salary increases, and the assumed level of CPI increases are lower than the assumed level of salary increase, future benefit levels are assumed to be lower as a result of the redundancy, leading to a curtailment gain. The pension liability in relation to these employees has reduced by £0.87m at the accounting date.

The total curtailment cost has therefore been measured at £0.94m.

Prior Period Adjustments

A number of amendments have been made to the figures reported in the 2008/09 and 2009/10 Statements of Accounts that are not IFRS restatement changes. The significant changes are as follows:

- PFI principal repayment: £0.808m was included in Central Services to the Public in error, causing an imbalance in the accounts. This has been removed in the 2009/10 Movement in Reserves Statement;
- Cash: previously, the Council's cash balance included a number of funds held on behalf of other related parties. These have been reclassified as creditors with the Council. The value in 2008/09 was £1.1m and in 2009/10 was £19.2m;
- Section 106 income: a review of developers' contributions has led to a number of items being moved from revenue to capital, or vice versa. £0.661m was removed from earmarked reserves in 2008/09 and moved into capital grants receipts in advance, and £0.230m in 2009/10;
- Non-current asset revaluations and impairments: in 2009/10, revaluations not going through the Comprehensive Income and Expenditure Statement were adjusted by (£0.352m). A further £8.7m adjustment was made to correct the opening 2009/10 Balance Sheet for an 2008/09 impairment; and
- Deferred capital receipts: these have been reclassified from long-term liabilities to unusable reserves.

7. Trading operations

Trading operations are required to be re-apportioned across services if failure to do so would result in a material misstatement in the reported total cost of services. As the balances are not material, they are not re-apportioned in the Comprehensive Income and Expenditure Statement (see Note 15 for details). The Council operates one significant trading operation and a number of smaller ones as follows:

Trading Operations				
2009/10 (Profits) / Losses £000s		**2010/11 Turnover Income £000s**	**Exp. £000s**	**(Profits) / Losses £000s**
(2,152)	Local Environmental Services (Construction) *Building maintenance, buildings and highway construction*	(55,230)	56,010	780
(160)	Cleaning of buildings	(5,612)	5,697	85
(41)	Security *Protection of buildings and Council assets*	(1,689)	1,792	103
340	School meals	(5,156)	5,169	13
(175)	Fleet *Management of vehicles within Gateshead*	(8,283)	8,322	39
0	Civic catering	(841)	1,184	343
(548)	IAS19 pension adjustment	(3,251)	4,099	848
(2,736)		**(80,062)**	**82,273**	**2,211**

8. Agency income and expenditure

The Council carries out a number of activities on behalf of other organisations. Details of significant agency income and expenditure are as follows:

Agency Transactions				
2009/10 Net £000s		2010/11 Income £000s	2010/11 Exp. £000s	2010/11 Net £000s
219	Council tax (NPA)	(4,772)	5,031	259
196	Council tax (Fire)	(4,173)	4,400	227
5,679	Department for Communities & Local Government (DCLG) - NNDR income from businesses	(75,825)	77,953	2,128
	Payments on behalf of employees:			
(5,041)	- HMRC (PAYE & employees' NICs)	(69,174)	64,126	(5,048)
(119)	- Tyne & Wear Pension Fund	(8,991)	8,272	(719)
(1,124)	- Teachers' Pension Scheme	(14,626)	14,610	(16)
0	- Other pension funds	(408)	1,010	602
(63)	- Unions	(870)	808	(62)
1	- Other	(515)	508	(7)
14,404	North East Improvement & Efficiency Partnership	(6,907)	12,926	6,019
306	North East Purchasing Organisation	(851)	901	50
0	Roman Catholic Diocese of Hexham & Newcastle	(221)	232	11
755	Baltic Trust	(116)	777	661
1,982	Residents' private cash	(3,147)	2,741	(406)
105	T&W ICT partnership	(60)	48	(12)
0	Gateshead Housing Company (HCA grants)	(3,624)	0	(3,624)
0	Clean Tyne Project	(39)	39	0
0	Tyne & Wear Material Laboratory	(165)	165	0
1,204	Northumbria Safer Roads Initiative	(1,346)	1,565	219
0	Traffic Accident Data Unit	0	24	24
(123)	Places for Change - DCLG grant to Housing Co.	(169)	0	(169)
0	Tyne & Wear Trading Standards & Metrology Lab	(240)	240	0
0	Newcastle City Council - BNG funding	(16,030)	16,030	0
	Trust and amenity funds	--- See Note 30 ---		

9. Councillors' allowances

The total of councillors' allowances (and expenses) paid in the year was as follows:

Councillors' Allowances		
2009/10 £000s		2010/11 £000s
643	Basic allowance	662
359	Special responsibility allowance	373
252	Expenses	219
1,254	**Total**	**1,254**

10. Partnership schemes under s31 of the Health Act 1999

Under Section 75 of the NHS Act 2006, Local Authorities and NHS bodies can establish pooled funds for partnership working. This legislation reinforces the duty established originally under Section 31 of the Health Act 1999. The funds are as follows:

Partnership Schemes (Pooled Budgets) under S31 of the Health Act 1999		
2009/10 £000s		2010/11 £000s
	Scheme / fund contributions	
	Learning Disability Services *Gateshead Council and Gateshead Primary Care Trust are operating a pooled fund for providing service developments for people with learning disabilities. The Council is the host partner with responsibility for administering the fund:*	
227	Gateshead MBC	**325**
50	Gateshead PCT	69
	Integrated Community Equipment Service *Gateshead Council, Gateshead Primary Care Trust and Gateshead Health NHS Foundation Trust are also operating a pooled fund to support an integrated community equipment service. Gateshead PCT is the host partner with responsibility for administering the fund:*	
736	Gateshead MBC	**710**
1,472	Gateshead PCT	1,422

11. Government and non-government grants

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

Government Grants & Contributions				
2009/10			2010/11	
Revenue	Capital		Revenue	Capital
£000s			£000s	
		a) General government grants not attributable to services		
(19,554)	0	Revenue Support Grant	(13,417)	0
(84,717)	0	Distribution from the national non domestic rates pool	(92,397)	0
(19,456)	0	Area Based Grant	(23,155)	0
(39)	0	Local Area Agreement Reward Grant	0	0
(258)	0	Local Authority Business Improvement Grant	0	0
		b) Specific government grants attributable to services		
(1,420)	0	Department for Business, Innovation and Skills	(2,594)	0
(7,936)	(14,239)	Department of Communities & Local Government	(7,702)	(15,979)
(200)	(11)	Department for Culture, Media & Sport	(58)	0
(146,171)	(34,482)	Department for Education	(140,011)	(24,263)
(1)	(618)	Department for Environment, Food and Rural Affairs	0	(123)
(18)	(3,827)	Department for Transport	(312)	(2,846)
(1,259)	(220)	Department of Health	(1,560)	(457)
(92,684)	0	Department for Work and Pensions	(74,773)	0
(1,822)	(175)	Home Office	(1,229)	(37)
(48)	0	Ministry of Justice	0	0
(1,954)	(390)	Joint / Other	(11,820)	(574)
		c) Specific non-government grants attributable to services		
0	(1,328)	SHIP grant	0	(1,098)
0	(702)	Single Programme	0	(5,453)
0	(787)	Big Lottery Fund	0	(1,026)
0	(1,858)	Other non-government grants	0	(2,004)
		d) Government contributions		
0	(1,222)	Warmzones	0	(684)
0	(759)	Other contributions	0	(1,292)
(377,537)	(60,616)		(369,028)	(55,836)
		e) Other contributions		
0	0	Insurance contributions	0	(1,560)
0	0	Other contributions	0	693
(377,537)	(60,616)	**Total grants recognised**	(361,278)	(56,703)

12. Related party transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments (or accrued in 2010/11) are set out in Note 11.

Councillors

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2010/11 is shown in Note 10.

During 2010/11, no works and services were commissioned from companies in which councillors had an interest. The Council entered into a related party transaction through the purchase of a business owned by a councillor (for £0.047m). In addition, one councillor was employed by a voluntary organisation in receipt of Council funding. The relevant councillors did not take part in any discussion or decision relating to the transactions. Details are recorded in the Register of Councillors' Interests, open to public inspection at the Civic Centre during office hours.

Officers

During 2010/11, no related party transactions were entered into with senior officers or their close family members.

Other public bodies

North East Improvement and Efficiency Partnership

The Council acts as accountable body for the North East Improvement and Efficiency Partnership (NEIEP). The partnership is funded by central government and works with local authorities on shared improvement and efficiency priorities. Although the Council acts as accountable body, it has no control over how the funds are spent and the income and expenditure is excluded from the Council's Comprehensive Income and Expenditure Statement (and is included in Note 8).

The balance of £8.3m as at March 2011 is included within creditors in the Council's Balance Sheet. 2010/11 was the last full operational year of the NEIEP. Of the remaining balance, £3.3m will be used to discharge commitments for projects that were commissioned by the NEIEP, the majority of which will be complete in early 2011/12, £0.8m will be managed by Association of Directors Adult Social Care (ADASS) North East to develop new approaches to adult social care, £1.3m will be provided to the new North East Purchasing Organisation (NEPO) to help deliver greater procurement savings to the region's local authorities, and £2.9m will be invested in other improvement and efficiency activities as directed by the region's chief executives.

Further information is available at: www.northeastiep.gov.uk.

Joint arrangements

The Council is involved with a number of entities that are not legally distinct bodies, such as joint committees. These have been established to aid joint working between local authorities, and as such any material assets or liabilities attributable to the Council will be included in the Balance Sheet. Any income or expenditure is accounted for within the Comprehensive Income and Expenditure Statement.

For the Council, the only material asset attributable to the Council is the Shipley Art Gallery, held by Tyne and Wear Archives and Museums. This is included in the Council's Balance Sheet (it should be noted that the asset is held in trust in perpetuity by the Council). No other material items have been identified.

The main joint arrangements identified during 2010/11 were as follows:

- Tyne & Wear Archives & Museums Joint Committee
- Association of North East Councils
- T&W City Region Employment and Skills Board
- T&W Trading Standards & Metrology Lab Joint Cttee
- Economy, Skills, Housing & Transport Partnership
- Tyne and Wear Materials Testing Laboratory
- NE Improvement and Efficiency Partnership
- North East Purchasing Organisation
- Gateshead Environmental Partnership
- Tyne and Wear Specialist Conservation Team
- Tyne and Wear Housing Partnership Board
- T&W Research and Information Unit
- Clean Tyne Project
- Durham Wildlife Trust
- Mountsett Crematorium
- T&W ICT Partnership
- Beamish
- Traffic Accident Data Unit
- TWEDCO Joint Committee
- Northumbria Safer Roads Initiative
- Gateshead Strategic Partnership
- Regional Traffic Signals Service
- Community Safety Partnership

Entities controlled or significantly influenced by the Council

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £4.355m worth of shares.

On 4 May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Gateshead Council has a shareholding of 1,304 shares representing a 13.04% interest in the company.

The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (13.04% of 51%) was £8.912m. The valuation of NIAL Holdings Limited is reviewed annually. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.559m based upon the

discounted cash flow method. There has been no significant change in external factors since the valuation that would materially affect the value of the shareholding.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £3.1m over the 10 years.

Gateshead Council's 13.04% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 6.65% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Limited).

The principal activity of Newcastle International Airport Limited (Registered No. 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

No dividends were payable for the years ended 31 December 2010 or 31 December 2009.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £4.823m and a loss after tax of £1.786m for the year ended 31 December 2010.

Gateshead Trading Company

The Gateshead Trading Company Ltd is a wholly owned subsidiary of Gateshead Council limited by shares. The Council owns all of the shares of the company and the share capital of the company is £100 divided into 100 ordinary shares of £1 each. 2010/11 was the first year of active trading and its activities included construction and design services.

There has been no transfer of assets and liabilities between the Council and the Gateshead Trading Company Ltd and the Council is the sole shareholder of the company, which does not hold any material balances outside of the Council's accounts.

Gateshead Housing Company

The Council's housing stock is managed and maintained by the Gateshead Housing Company (TGHC). In respect of this, the Council paid a management fee of £32.273m to the company in 2010/11 (£34.182m in 2009/10). This sum is shown in full in the Council's accounts as part of the Housing Revenue Account, as disclosed in Note 18 to the HRA.

In addition to this, TGHC managed capital works totalling £31.340m in 2010/11 (£62.629m in 2009/10) in respect of Decent Homes works. This expenditure is reclaimed from Gateshead Council and forms part of the total HRA capital expenditure of £43.003m as disclosed in Note 6 to the HRA. TGHC receive a management fee to cover management and administration costs incurred in respect of these works. This totalled £2.5m in 2010/11 (£3m in 2009/10), which is included within the £72.741m and is in addition to the revenue management fee of £32.273m.

TGHC purchased goods and services totalling £15.101m (£28.577m in 2009/10) from the Council as part of its operating activities, this included capital work undertaken by LES. The trade balance outstanding at the year-end was £2.189m (£7.283m in 2009/10).

There has been no transfer of assets or liabilities between the Council and TGHC and the Council is the sole shareholder of the company, which does not hold any material balances outside of the Council's accounts.

TGHC also has a charitable subsidiary, Keelman Homes, a company limited by guarantee. Its purpose is to provide new energy efficient homes. A newly formed entity (25 July 2009), Keelman Homes began trading in June 2010 when they received part of their loan from the Homes and Communities Agency and started to build new properties at Kibblesworth. The first tenants moved into these homes in September 2010 and there is a management agreement between TGHC and Keelman Homes to manage them. Keelman Homes will also receive a loan from Gateshead Council - however, they have not yet drawn down this loan.

Trust Funds
The Council holds a number of trust funds; more detail can be found in Note 30.

Residents' Private Cash
The Council holds cash balances on behalf of certain residents; any balances held are excluded from the accounts other than as creditor balances.

13. Officers' remuneration

The number of employees (including schools) whose remuneration (excluding pension contributions) was over £50,000 was as follows:

Numbers of Staff Earning Over £50,000			
Remuneration Band	Number of Employees		Excluding effects of VR
	2009/10	2010/11	2010/11
£50,000 - £54,999	72	82	69
£55,000 - £59,999	48	54	43
£60,000 - £64,999	30	30	19
£65,000 - £69,999	15	26	15
£70,000 - £74,999	22	22	17
£75,000 - £79,999	5	9	6
£80,000 - £84,999	3	4	2
£85,000 - £89,999	6	1	1
£90,000 - £94,999	2	6	5
£95,000 - £99,999	1	0	1
£100,000 - £104,999	3	3	4
£105,000 - £109,999	0	3	2
£110,000 - £114,999	0	0	0
£115,000 - £119,999	1	0	0
£120,000 - £124,999	0	0	0
£125,000 - £129,999	0	1	0
£130,000 - £134,999	0	1	0

The table above has been prepared including and excluding the effect of any voluntary redundancies taking place in 2010/11 to indicate the cost impact on senior staff.

Remuneration of the Chief Executive and Strategic and Group Directors has been excluded above; these are as follows:

Remuneration of Senior Employees 2010/11						
Post holder information	Notes	Salary (Including fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	Total remuneration 2010/11 £
Chief Executive, Roger Kelly	1	194,015	13,756	11,750	33,317	252,838
Assistant Chief Executive		112,569	0	5,284	17,091	134,944
Strategic Director, Finance & ICT		137,987	0	13,589	20,937	172,513
Strategic Director, Legal & Corporate Services		112,161	0	5,870	17,029	135,060
Group Director, Community Based Services		95,391	0	5,896	14,483	115,770
Group Director, Learning and Children		112,658	0	5,344	17,091	135,093
Group Director, Local Environmental Services		118,287	0	11,290	17,946	147,523
Group Director, Development & Enterprise		101,452	0	5,228	15,403	122,083
	2	**984,520**	**13,756**	**64,251**	**153,297**	**1,215,824**

Note 1: expense allowance includes Returning Officer Fees of £13,756 for Council Election and General Election.

Note 2: there were no payments for bonuses or compensation for loss of office. There were no new starters or leavers in any of the posts.

Payments for Other Responsibilities		
Payments for Northumbria Police Authority responsibilities (included in above):	2009/10 £	2010/11 £
Chief Executive	27,704	27,704
Strategic Director, Finance & ICT	19,700	19,700
Strategic Director, Legal & Corporate Services	9,534	10,196
Group Director, Development & Enterprise	11,257	9,223

Remuneration of Senior Employees 2009/10						
Post holder information	Notes	Salary (including fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	Total remuneration 2009/10 £
Chief Executive, Roger Kelly	1	194,015	7,376	19,584	31,982	252,957
Assistant Chief Executive		107,211	0	5,054	16,082	128,347
Strategic Director, Finance & ICT		132,358	0	13,189	19,840	165,387
Strategic Director, Legal & Corporate Services		106,669	0	5,635	16,000	128,304
Group Director, Community Based Services	2	100,416	0	5,251	15,052	120,719
Group Director, Learning and Children	3	121,153	0	6,062	18,158	145,373
Group Director, Local Environmental Services		112,658	0	10,926	16,885	140,469
Group Director, Development & Enterprise	4	128,665	0	12,342	183,874	324,881
		1,003,145	**7,376**	**78,043**	**317,873**	**1,406,437**

Note 1: expense allowance includes Returning Officer Fee of £7,376 in relation to by-election and European election.

Note 2: former Group Director left post 31/01/10. Salary £85,044 (annualised basic salary £101,964), benefits in kind £4,230, pension £12,746. The latter Group Director commenced 01/02/10. Salary £15,372 (annualised basic salary £92,229), benefits in kind £1,021, pension £2,306.

Note 3: former Group Director left post 28/02/10. Salary £103,270 (annualised basic salary £112,569), benefits in kind £5,216, pension £15,478. The latter Group Director commenced 01/02/10.Salary £17,883 (annualised basic salary £107,211), benefits in kind £846, pension £2,680.

Note 4: pension includes £165,300 in relation to the cost of pension augmentation due to discretionary added years.

14. Audit fees

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Council's external auditors, the Audit Commission:

Audit fees		
2009/10 £000s		**2010/11 £000s**
298	Fees payable with regard to external audit services carried out for the year	308
17	Fees payable in respect of statutory inspections	0
62	Fees payable for the certification of grant claims and returns for the year	65
3	Fees payable in respect of other services provided during the year	2
380		**375**

15. Information to be presented either in the Comprehensive Income and Expenditure Statement or in the notes

a. Material items of income or expense:

Any material items of income or expense within the accounts have been disclosed elsewhere within the notes; these relate to impairments, voluntary redundancy costs and actuarial pension adjustments.

b. Analysis of items below Net Cost of Services:

Analysis of items below Net Cost of Services		
2009/10 £000s		**2010/11 £000s**
	Other Operating Expenditure	
(278)	Gains / losses on the disposal of non-current assets	(781)
	Precepts and levies	0
136	Environment Agency levy	140
23	Tyne Port Health Authority precept	23
12,354	Tyne and Wear Integrated Transport Authority levy	12,500
8	Lamesley Parish Council precept	8
623	Payments to the housing capital receipts pool	995
12,866		**12,885**
	Financing and Investment Income and Expenditure	
26,705	Interest payable and similar charges	30,298
53,100	Pensions interest cost	56,020
(26,520)	Expected return on pensions assets	(43,710)
(2,150)	Interest receivable and similar income	(1,524)
(35)	Changes in the fair value of investment properties	0
(2,736)	(Surpluses) / deficits on trading activities	2,211
48,364		**43,295**
	Taxation and non-Specific Grant Income	
(84,351)	Council tax income	(86,173)
(39,307)	Government grants not attributable to Services	(36,572)
(62,174)	Capital grants and contributions	(56,703)
(84,717)	NNDR re-distribution	(92,397)
(270,549)		**(271,845)**

16. Movement in Reserves Statement adjustments

The Movement in Reserves Statement details all movements in the Council's useable reserves, and provides a summary of the movements in unusable reserves. The following tables provide further detail of the amounts disclosed in the Movement in Reserves Statement.

a. **Other comprehensive income and expenditure.** This comprises items of expense and income (including reclassification adjustments) that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. The following tables detail the transactions during 2010/11 and 2009/10:

Other Comprehensive Income and Expenditure						
2009/10 £000s		**2010/11 movements (£000s)**				
		General Fund Balance	Earmarked GF Reserves	Capital Grants Unapplied	Unusable Reserves	**Total**
117,480	Actuarial losses on pension fund liabilities	0	0	0	(7,630)	**(7,630)**
(3,039)	Losses arising on revaluation of non-current assets	0	0	0	(12,117)	**(12,117)**
500	Losses arising on revaluation of Newcastle Airport investment	0	0	0	0	**0**
(180)	Other (gains) / losses	0	0	0	0	**0**
114,761	**Other comprehensive income and expenditure**	**0**	**0**	**0**	**(19,747)**	**(19,747)**
2008/09 £000s		**2009/10 movements (£000s)**				
		General Fund Balance	Earmarked GF Reserves	Capital Grants Unapplied	Unusable Reserves	**Total**
135,900	Actuarial losses on pension fund liabilities	0	0	0	117,480	**117,480**
43,536	Losses arising on revaluation of non-current assets	0	0	0	(3,039)	**(3,039)**
7,853	Losses arising on revaluation of Newcastle Airport investment	0	500	0	0	**500**
(818)	Other (gains) / losses	(491)	0	(107)	418	**(180)**
186,471	**Other comprehensive income and expenditure**	**(491)**	**500**	**(107)**	**114,859**	**114,761**

b. Adjustments between accounting basis and funding under regulations: this section of the Movement in Reserves Statement details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure:

Adjustments between accounting basis & funding basis under regulations 2010/11	2010/11 movements (£000s)						
	General Fund Balance	Earmarked GF Reserves	HRA	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Amortisation of intangible assets	(343)	0	0	0	0	0	343
Charges for depreciation, impairment and amortisation of non-current assets	(58,200)	0	(318,110)	0	0	0	376,310
The excess of depreciation charged to HRA services over the Major Repairs Allowance element of housing subsidy	0	0	(10,378)	0	0	0	10,378
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	55,143	0	0	0	0	(16,644)	(38,499)
Revenue expenditure funded from capital under statute	(12,263)	0	(212)	0	0	0	12,475
Net gain or loss on sale of non-current assets	278	0	503	0	(2,437)	0	1,656
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(6,472)	0	1,127	0	0	0	5,345
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	109,875	0	69	0	0	0	(109,944)
Statutory provision for repayment of debt	10,988	0	0	0	0	0	(10,988)
Capital expenditure charged to the General Fund balance	2,783	0	53	0	0	0	(2,836)
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	(985)	0	0	0	985	0	0
Amount by which council tax income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(588)	0	0	0	0	0	588
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	137	0	1	0	0	0	(138)
Capital Expenditure Financed from Usable Capital Receipts	0	0	0	0	21		(21)
Transfers to/from other Reserves	0	0	0	0	4,308	23,402	(27,710)
Adjustments between accounting basis & funding basis under regulations	**100,353**	**0**	**(326,947)**	**0**	**2,877**	**6,758**	**216,959**
Transfers to/from other Earmarked Reserves	(26,097)	26,097	0	0	0	0	0
Net transfer to or from earmarked reserves required by legislation	**(26,097)**	**26,097**	**0**	**0**	**0**	**0**	**0**

Adjustments between accounting basis & funding basis under regulations 2009/10	2009/10 movements (£000s)						
	General Fund Balance	Earmarked GF Reserves	HRA	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Amortisation of intangible assets	(171)	0	0	0	0	0	171
Charges for depreciation, impairment and amortisation of non-current assets	(23,912)	0	(21,171)	0	0	0	54,020
Movements in the market value of Investment Properties	0						0
The excess of depreciation charged to HRA services over the Major Repairs Allowance element of housing subsidy	0	0	(68,364)	2,616	0	0	65,748
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	67,170	0	46	0	0	(23,592)	(38,538)
Revenue expenditure funded from capital under statute	(11,636)	0	(587)	0	0	0	12,223
Net gain or loss on sale of non-current assets	(514)	0	822	0	(3,014)	0	2,706
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(13,139)	0	1,317	0	0	0	8,957
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(12,543)	0	244	0	0	0	12,299
Statutory provision for the financing of capital investment	8,346	0	25,087	0	0	0	(8,346)
Capital expenditure charged to the General Fund / HRA	1,327	0	306	0	0	0	(1,633)
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	(623)	0	0	0	623	0	0
Amount by which council tax income included in the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(788)	0	0	0	0	0	788
Amount by which amounts charged for equal pay claims to the Comprehensive Income & Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	(536)	0	0	0	2,700
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	319	0	3	0	0	0	(322)
Capital Expenditure Financed from Usable Capital Receipts	0	0	0	0	3,029	0	(1,488)
Transfers to/from other Reserves	0	230	0	0	(9)	5,148	(5,369)
Adjustments between accounting basis & funding basis under regulations	**13,836**	**230**	**(62,833)**	**2,616**	**629**	**(18,444)**	**103,916**
Transfers to/from other Earmarked Reserves	(13,711)	13,711	0	0	0	0	0
Net transfer to or from earmarked reserves required by legislation	**(13,711)**	**13,711**	**0**	**0**	**0**	**0**	**0**

c. **Reserves:** the Council maintains the following reserves, which are classified as either usable (backed by cash) or unusable (notional adjustment accounts not supported by cash):

Usable Reserves

The **General Fund** is the main fund into which council tax, government grant and other income is paid into and from which meets the day-to-day cost of providing services. The General Fund is split between a general Council reserve and reserves attributable to schools (LMS reserve). Spending on the provision of housing is also split, between the General Fund and the Housing Revenue Account.

The **Housing Revenue Account (HRA)** reflects a statutory obligation to account separately for council housing provision. It shows the major elements of housing revenue expenditure: maintenance, administration and capital financing costs, and how rents, subsidy and other income meet these costs. The account is ring-fenced, preventing the subsidisation of rents from general income of the Council and vice versa.

Earmarked Reserves are reserves set aside from General Fund resources in order to fund future, specific activities or cost pressures.

The **Capital Receipts Reserve** is used to hold income received from the sale of non-current assets, and is used to finance future capital expenditure.

The **Newcastle International Airport Reserve** is a reserve reflecting the estimated market value of the Council's holding in the Airport.

The **Major Repairs Reserve** records the unspent balance of HRA subsidy paid in the form of the Major Repairs Allowance. This represents resources available to fund capital investment in Council housing.

Unusable Reserves

The **Capital Adjustment Account** absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is charged with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the account.

The **Equal Pay Back Pay Account**: the Council has received a number of legal claims from previous and current employees relating to equal pay. The Comprehensive Income and Expenditure Statement includes a provision to reflect the potential cost of claims currently received by the Council. A capitalisation direction has been received to enable the Council to spread the potential cost of these claims over a number of years.

The Council has used its powers[22] not to charge to revenue the impact of equal claims until such time as they become payable. The Equal Pay Back Pay Account is used to hold the amounts which have been deferred from being charged to the General Fund. It compensates for differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the General Fund until such time as cash might be paid out to claimants.

The **Collection Fund Adjustment Account** manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The **Pensions Reserve** absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The **Financial Instruments Adjustment Account** is a statutory reserve that absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance relates to deferred liabilities that regulations specify can continue to be recognised over the life of the replacement borrowing, and amounts relating to the re-measurement of soft loans entered into by the Council, which regulations allow to be recharged over the life of the loans.

The balance on the account relates to £5.740m deferred liabilities that regulations specify can continue to be recognised over the life of the replacement borrowing for the General Fund and a maximum of 10 years in respect of the HRA. The balance contains a further £0.095m relating to the re-measurement of soft loans entered into by the Council, which regulations allow to be recharged over the life of the loans.

The **Revaluation Reserve** contains gains made by the Council arising from increases in non-current asset values. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Deferred Capital Receipts are created when Council dwellings are sold and a mortgage is advanced to enable tenants to purchase the property. An amount equal to this is called a deferred capital receipt. They are written down each year by the amount of debt repaid.

[22] Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007 No 573) Regulation 30A

An analysis of the Council's reserves and details of any transfers to or from earmarked reserves are set out below:

Analysis of the Transfers to / from Earmarked Reserves

Balance as at 31/03/09 £000s		Transfers to reserve £000s	Transfers from reserve £000s	Balance as at 31/03/10 £000s	Transfers to reserve £000s	Transfers from reserve £000s	Balance as at 31/03/11 £000s
	Useable Reserves						
	General Fund balance:						
(11,444)	General Reserve	(6,061)	0	**(17,505)**	3,421	(1,910)	**(15,994)**
(10,853)	LMS Budget Share Reserve	(1,547)	1,493	**(10,907)**	(1,895)	1,910	**(10,891)**
	Earmarked General Fund reserves:						
(8,353)	Pensions	(4,002)	5,647	**(6,708)**	(794)	4,500	**(3,001)**
(3,578)	Capital	0	3,578	**0**	0	0	**0**
(3,878)	Insurance	0	878	**(3,000)**	0	0	**(3,000)**
(5,884)	Grant Clawback	0	4,171	**(1,713)**	0	338	**(1,375)**
(33,217)	Gateshead Development Pool	(642)	5,963	**(27,896)**	(3,893)	21,570	**(10,219)**
(726)	Cultural Development Reserve	(500)	475	**(751)**	0	486	**(265)**
(920)	Bridge Maintenance	0	0	**(920)**	0	0	**(920)**
(890)	Developers' Contributions	(667)	242	**(1,315)**	(312)	32	**(1,595)**
(600)	LAA Reward Grant Reserve	(39)	0	**(639)**	0	639	**0**
(4,359)	Economic Downturn	(1,662)	291	**(5,730)**		3,475	**(2,255)**
(789)	DSG Reserve	(181)	390	**(580)**	0	55	**(525)**
(63,194)	Total Earmarked General Fund reserves:	**(7,693)**	**21,635**	**(49,253)**	**(4,999)**	**31,095**	**(23,156)**
(18,191)	Housing Revenue Account balance	0	1,337	**(16,854)**		527	**(16,327)**
	Earmarked Housing Revenue Account reserves:						
(2,616)	Major Repairs Reserve	(25,087)	27,703	**0**	0	0	**0**
(3,957)	Capital Receipts Reserve	(11,102)	11,731	**(3,328)**	(2,852)	5,729	**(451)**
(11,248)	Capital Grants Unapplied	(23,637)	5,086	**(29,799)**	(203,211)	209,969	**(23,041)**
(1,059)	Newcastle International Airport Reserve	0	500	**(559)**	0	0	**(559)**
(122,562)	**Total usable reserves**	**(75,127)**	**69,485**	**(128,205)**	**(209,536)**	**247,320**	**(90,419)**
	Unusable reserves						
(16,383)	Revaluation Reserve	(7,047)	3,342	**(20,088)**	(12,838)	1,723	**(31,203)**
(1,139,634)	Capital Adjustment Account	(88,156)	154,740	**(1,073,050)**	(163,361)	490,148	**(746,263)**
9,549	Financial Instrument Adjustment Account	(3,256)	1,005	**7,298**	(1,463)	0	**5,835**
0	Equal Pay Back Pay Account	0	2,700	**2,700**	0	0	**2,700**
(1,340)	Deferred Capital Receipts Reserve	(1,263)	3	**(2,600)**		127	**(2,473)**
(918)	Collection Fund Adjustment Account	(836)	1,624	**(130)**	(93,101)	93,689	**458**
4,959	Accumulated Absences Account	(322)	0	**4,637**	(138)	0	**4,499**
378,914	Pensions Reserve	0	129,778	**508,692**	(117,574)	0	**391,118**
(764,853)	**Total unusable reserves**	**(100,880)**	**293,192**	**(572,541)**	**(388,475)**	**585,687**	**(375,329)**
(887,415)	**Total reserves of the Council**	**(176,007)**	**362,677**	**(700,746)**	**(598,011)**	**833,007**	**(465,748)**

17. Leases

a. **Lessee – Operating Leases**

The Council has acquired various items of equipment and buildings by entering into operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

	31/03/09 £000s	31/03/10 £000s	31/03/11 £000s
Not later than one year	870	692	714
Later than one year and not later than five years	1,850	1,540	1,244
Later than five years	2,172	1,884	1,788
	4,892	**4,116**	**3,746**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2009/10 £000s	2010/11 £000s
Minimum lease payments	426	292
	426	**292**

b. **Lessor – Operating Leases**

The Council leases out property and equipment under operating leases for the following purposes: - for the provision of community services, such as garage sites - for economic development purposes to provide suitable affordable accommodation for local businesses.

The total values of future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31/03/10 £000s	31/03/11 £000s
Leases expiring within one year	3,049	1,746
Leases expiring between one year and five years	4,799	3,943
Leases expiring after five years	96,524	95,634
	104,372	**101,323**

c. **Lessee – Finance Leases**

The Council has various IT equipment under finance leases. The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

	31/03/10 £000s	31/03/11 £000s
Vehicles, plant, furniture and equipment	**263**	**197**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31/03/10 £000s	31/03/11 £000s
Finance lease liabilities (net present value of minimum lease payments):		
Current	85	90
Non current	184	94
Finance costs payable in future years	27	13
Minimum lease payments	**296**	**197**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities[23]	
	31/03/10 £000s	31/03/11 £000s	31/03/10 £000s	31/03/11 £000s
Not later than one year	99	99	85	90
Later than one year and not later than five years	197	99	184	94
Later than five years	0	0	0	0
	296	**197**	**269**	**184**

23 The net present value of the minimum lease payments

d. **Lessor – finance leases:**

The Council has leased out two properties at the Gateshead Interchange Centre. One has a remaining term of one year and the other for ten years; both are finance leases.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31/03/09 £000s	31/03/10 £000s	31/03/11 £000s
Finance lease debtor (net present value of minimum lease payments):			
Current	165	127	132
Non current	1,263	1,137	1,005
Unearned finance income	422	357	303
Unguaranteed residual value of property	389	389	389
Gross investment in the lease	**2,239**	**2,009**	**1,829**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31/03/10 £000s	31/03/11 £000s	31/03/10 £000s	31/03/11 £000s
Not later than one year	180	180	180	180
Later than one year and not later than five years	720	720	720	720
Later than five years	1,109	929	720	540
	2,009	**1,829**	**1,620**	**1,440**

18. Property, plant and equipment

Property, Plant and Equipment Movements	Other land and buildings at fair value	Assets under construction at cost	Vehicles, plant and equipment at cost	Finance leased equipment at cost	Council dwellings at fair value	Infra-structure at cost	Community assets at cost	Surplus assets	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**
Cost or valuation									
Original balance at 31 March 2009	475,512	2,229	50,493	0	1,068,142	116,407	5,602	31,133	**1,749,518**
IFRS restatement adjustments	(16,642)	8,734	1	0	1	0	1	1,612	**(6,292)**
Restated balance at 1 April 2009	**458,870**	**10,963**	**50,494**	0	**1,068,143**	**116,407**	**5,603**	**32,745**	**1,743,226**
Additions	24,079	29,276	7,221	350	72,121	7,065	503	387	**141,002**
Disposals	0	0	(1,007)	0	(692)	0	0	0	**(1,699)**
Revaluation increase/(decrease) to Revaluation Reserve	(2,067)	0	(27)	0	0	0	0	(1,195)	**(3,290)**
Revaluation increase/(decrease) to Comprehensive I&E	(8,679)	0	0	0	(89,572)	0	0	(7,978)	**(106,229)**
Balance at 31 March 2010	472,203	40,240	56,681	350	1,050,000	123,471	6,106	23,959	**1,773,010**
Reclassifications	24,604	(25,281)	0	0	0	0	0	677	**0**
Opening balance at 1 April 2010	**496,807**	**14,959**	**56,681**	**350**	**1,050,000**	**123,471**	**6,106**	**24,636**	**1,773,010**
Additions	58,931	24,626	8,405	0	37,061	6,861	301	302	**136,486**
Disposals	(651)	0	(1,328)	0	(969)	0	0	0	**(2,948)**
Revaluation increase/(decrease) to Revaluation Reserve	7,849	0	0	0	0	0	58	66	**7,973**
Revaluation increase/(decrease) to Comprehensive I&E	(37,677)	0	0	0	(339,091)	0	(770)	(831)	**(378,369)**
Balance at 31 March 2011	**525,258**	**39,585**	**63,758**	**350**	**747,000**	**130,332**	**5,695**	**24,173**	**1,536,151**

Property, Plant and Equipment Movements

	Other land and buildings at fair value	Assets under construction at cost	Vehicles, plant and equipment at cost	Finance leased equipment at cost	Council dwellings at fair value	Infra-structure at cost	Community assets at cost	Surplus assets	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**
Accumulated depreciation and impairment									
Original balance at 31 March 2009	(24,300)	0	(30,573)	0	(21,363)	(23,828)	0	(89)	**(100,153)**
IFRS restatement adjustments	1,983	0	71	0	0	0	0	(97)	**1,957**
Balance at 1 April 2009	**(22,317)**	**0**	**(30,502)**	**0**	**(21,363)**	**(23,828)**	**0**	**(186)**	**(98,196)**
Eliminated on disposals of assets	0	0	967	0	13	0	0	0	**980**
Depreciation written out to Revaluation Reserve	6,796	0	29	0	0	0	0	41	**6,866**
Depreciation written out to Comprehensive I&E	2,601	0	0	0	21,350	0	0	108	**24,059**
Impairment losses recognised in profit or loss	(105)	0	0	0	0	0	0	0	**(105)**
Reversals of impairment losses recognised in profit or loss	0	0	0	0	0	0	0	0	**0**
Depreciation	(10,842)	0	(7,131)	(88)	(21,000)	(3,012)	0	(146)	**(42,219)**
Balance at 31 March 2010	(23,867)	0	(36,637)	(88)	(21,000)	(26,840)	0	(183)	**(108,615)**
Reclassifications	124	0	1	0	0	1	0	(125)	**1**
Opening balance at 1 April 2010	**(23,743)**	0	**(36,636)**	**(88)**	**(21,000)**	**(26,839)**	0	**(308)**	**(108,614)**
Disposals	0	0	1,274	0	19	0	0	0	**1,293**
Depreciation written out to Revaluation Reserve	4,144	0	0	0	0	0	0	0	**4,144**
Depreciation written out to Comprehensive I&E	5,863	0	0	0	20,981	0	0	145	**26,989**
Depreciation	(13,973)	0	(7,491)	(66)	(13,446)	(3,266)	0	(324)	**(38,566)**
Balance at 31 March 2011	**(27,709)**	**0**	**(42,853)**	**(154)**	**(13,446)**	**(30,105)**	**0**	**(487)**	**(114,754)**

	Other land and buildings at fair value	Assets under construction at cost	Vehicles, plant and equipment at cost	Finance leased equipment at cost	Council dwellings at fair value	Infra-structure at cost	Community assets at cost	Surplus assets	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Book Value at 31/03/2010	**448,337**	**40,240**	**20,044**	**262**	**1,029,000**	**96,631**	**6,106**	**23,776**	**1,664,396**
Net Book Value at 31/03/2011	**497,549**	**39,585**	**20,905**	**196**	**733,554**	**100,227**	**5,695**	**23,686**	**1,421,397**

Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2009/10 £000s		2010/11 £000s
490,843	**Opening capital financing requirement**	**572,567**
	Capital investment	
141,005	Property, plant and equipment	136,484
295	Intangible assets	877
23,964	Revenue expenditure funded from capital under statute	22,907
	Sources of finance	
(2,189)	Capital receipts	(4,877)
(71,328)	Government grants and other contributions	(68,361)
	Sums set aside from revenue:	
(1,677)	Direct revenue contributions	(2,837)
(8,346)	[MRP/loans fund principal]	(10,998)
572,567	**Closing capital financing requirement**	**645,762**
	Explanation of movements in year	
36,618	Increase in underlying need to borrowing (supported by government financial assistance)	10,444
45,646	Increase in underlying need to borrowing (unsupported by government financial assistance)	63,697
268	Assets acquired under finance leases	(85)
(808)	Assets acquired under PFI/PPP contracts	(861)
81,724	**Increase/(decrease) in capital financing requirement**	**73,195**

Capital Commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2011/12 and future years budgeted to cost £12.5m. Similar commitments at 31 March 2010 amounted to £11.6m. The major commitments relate to the completion of the following schemes:

- Building Schools for the Future £6.0m
- Gateshead International Stadium £1.7m
- Northern Design Centre £4.4m
- Building an Active Future £0.4m

Revaluations

Valuations are carried out on a rolling programme basis, with 20% of assets valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, HRA dwellings, the Civic Centre and other major assets are valued annually.

A full review of the Council's property assets was undertaken at the end of 2008/09 to assess the impact of the economic downturn on the Council's assets. The valuations in subsequent years have been completed as part of the rolling programme and the total valuations are summarised in the table below for the relevant year:

Revaluations	Land and Buildings £000s	Council Dwellings £000s	Surplus Assets £000s	**Total Valuation £000s**
Assets valued 1 April 2010	239,732	747,000	725	**987,457**
Assets valued 1 April 2009	221,794	1,050,000	1,768	**1,273,562**
Assets valued 1 April 2008	421,299	1,068,143	32,674	**1,522,116**

19. Investment property

31/03/09 £000s	Investment Property Balances (at Fair Value)	31/03/10 £000s	31/03/11 £000s
0	**Balance at start of year**	**263**	**148**
0	Disposals	(115)	0
263	Transferred from property, plant and equipment	0	0
263	**Balance at end of year**	**148**	**148**

20. Intangible assets

Intangible Asset Movements	Licences £000s	Total £000s
Cost		
Balance at 1 April 2009	470	**470**
Additions	295	**295**
Balance at 31 March 2010	765	**765**
Additions	876	**876**
Balance at 31 March 2011	**1,641**	**1,641**
Accumulated amortisation and impairment		
Balance at 1 April 2009	(159)	**(159)**
Amortisation expense	(171)	**(171)**
Balance at 31 March 2010	(330)	**(330)**
Amortisation expense	(343)	**(343)**
Balance at 31 March 2011	**(673)**	**(673)**
Net book value of intangible assets at 31 March 2009	**311**	**311**
Net book value of intangible assets at 31 March 2010	**435**	**435**
Net book value of intangible assets at 31 March 2011	**968**	**968**

21. Assets held for sale

Assets Held for Sale	Current	
	2009/10 £000s	2010/11 £000s
Balance outstanding at start of year	**1,233**	**701**
Revaluation losses	(144)	0
Assets sold	(388)	0
Balance outstanding at year-end	**701**	**701**

22. Public finance initiative (PFI) arrangements

a) Schools PFI

In February 2006, the Council entered into a contract with Pinnacle Schools (Gateshead) Limited (PSG) to design, build, finance and operate seven new schools in Gateshead. The schools were completed during 2007 and 2008: PSG will manage and maintain them until 2033.

The schools are provided under the PFI scheme. As such, they benefit from government grants for the period of the contract. The value of these grants was £65m at 2005 prices.

PSG are paid by the Council using a formula within the contract. Payments consist of a fixed element and an index-linked (RPIX) element which form a monthly “unitary charge”, covering the construction, financing and running costs of the schools. However, actual payments to PSG may vary due to the company’s performance, contract variations and additional works.

One school within the contract was built on behalf of the Roman Catholic Diocese of Hexham and Newcastle. As such, the asset, liability and any income or expenditure have been excluded from these accounts (see Note 8 for further information).

b) Analysis of movements in PFI asset values

The values of the school buildings changed as follows during the year:

Schools PFI - Asset Values			
31/03/09 £000s		31/03/10 £000s	31/03/11 £000s
39,572	**Opening value**	**51,744**	**49,375**
	Movements:		
14,992	Additions	205	86
0	Revaluations	17	3,957
(1,037)	Depreciation	(896)	(1,194)
(1,783)	Impairments	(1,694)	(3,434)
51,744	**Closing value**	**49,375**	**48,789**

c) Analysis of movements in PFI liabilities

The estimated value of outstanding contractual Balance Sheet liabilities (the capital element of unitary charge payments still to be made) is analysed below:

Schools PFI - Liabilities			
31/03/09 £000s		31/03/10 £000s	31/03/11 £000s
(38,607)	**Opening value**	**(48,388)**	**(47,581)**
(11,333)	New liabilities	0	0
795	Bullet payments	0	0
757	Repayment of capital	807	861
(48,388)	**Closing value**	**(47,581)**	**(46,720)**

d) Analysis of unitary charge payments outstanding

The estimated value of outstanding unitary charge payments (at current prices) is analysed below:

Schools PFI - Unitary Charge Payments Remaining				
	Repayment of Liability £000s	Interest Payment £000s	Service Charges £000s	Total £000s
– within 1 year	918	3,094	3,305	**7,317**
– within 2-5 years	4,322	11,726	13,801	**29,848**
– within 6-10 years	7,220	12,839	18,667	**38,727**
– within 11-15 years	9,949	10,110	20,434	**40,493**
– within 16-20 years	13,709	6,350	22,433	**42,492**
– within 21-25 years	10,602	1,434	10,865	**22,900**
	46,720	**45,553**	**89,505**	**181,777**

Note that the value of contingent rents (rents that are not fixed – in this case, those due to a general increase in prices[24]) within the arrangement were as follows:

Contingent Rentals	
	£000s
2008/09 value	**285**
2009/10 value	**360**
2010/11 value	**505**

Significant contractual information

Significant terms of the arrangement

Market testing: from 1 April 2013 onwards, five-yearly market testing exercises must be carried out by an independent third party on behalf of PSG. Should the service costs (grounds maintenance, cleaning and waste management, and pest control) change by 5% or more, the unitary charge must be adjusted accordingly.

Pension liability: an adjustment is required for any changes in employer pension contributions from an agreed percentage of employees' pay. This may be payment to or from the contractor.

Refinancing gains: should PSG choose to refinance its debts (subject to the Council's consent), the Council is entitled to a 50% share of any gains.

[24] The Schools PFI contract is inflated annually by RPIx, the retail price index excluding mortgage payments

Rights to use specified assets

The Council has full rights to use the schools for the provision of educational services. However, a fee is payable to PSG for use outside normal hours (for example, community use).

Rights to expect provision of services

The Council has rights to expect the provision of managed facilities management (FM) services for the duration of the contract.

Rights to receive specified assets at the end of the concession period

The schools are under the operational control of PSG during the contract, with legal title to the land remaining with the Council throughout the contract. Any equipment procured by PSG for the operation of the schools will be transferred to the Council at the end of the contract period.

There are a number of agreements between the Council and the Diocese around the shared Highfield / St Joseph's site. They ensure that the Diocese has the right to use their half of the site indefinitely following hand back, along with rights to use shared areas for the duration of the contract.

Renewal and termination options

The contract does not include an option to extend/renew beyond the contractual expiry date.

The contract allows the Council to terminate the contract on 20 business days' notice, or either party to terminate on the other party's default or in the event of force majeure. There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Other rights and obligations

It is anticipated that any staff employed by PSG or its subcontractors in running the schools will have the legal right to transfer over to the Council at the end of the contract.

23. Financial instruments

a. Nature and extent of risk arising from financial instruments

Key risks: the Council's borrowing and investment activities expose it to a variety of financial risks, the key risks being:

- Credit risk: the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity Risk: the possibility that the Council might not have the funds available to meet its commitments to make payments;
- Re-financing risk: the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market Risk: the possibility that the Council may suffer financial loss as a result of changes in measures such as interest rate.

Procedures for managing risk: the Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code 2009, the revised CIPFA Treasury Management in the Public Services Code of Practice 2009 and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code;
- by the adoption of a Treasury Policy Statement;

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investments counterparties in compliance with government guidance; and
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposure to fixed and variable rates;
  - its maximum and minimum exposures within the maturity structures of its debt; and
  - its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's annual council tax setting budget meeting. These items are reported with the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure. Actual performance is also reported annually to Council.

A central treasury team implements these policies. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through treasury management practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

The Council also uses treasury consultants to provide guidance in all areas of treasury management.

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the Debt Management Office, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The Annual Investment Strategy also stipulates the maximum amount and time limits in respect of each financial institution.

At the 31 March 2011 £12.303m (12.75%) of the Council's £96.500m of deposits were with financial institutions domiciled outside of the UK:

Deposits Outside the UK				
	2009/10		2010/11	
Country of Domicile	Amount £000s	%	Amount £000s	%
Singapore	10,325	8.58	8,495	8.80
Australia	0	0.00	3,808	3.95
	10,325	**8.58**	**12,303**	**12.75**

The table below shows the gross amounts due to the Council from its financial assets, and the amounts which have been impaired due to likely non receipt. The net carrying value represents the maximum credit risk to which the Council is exposed:

Gross Amounts due to the Council from Financial Assets				
2009/10		2010/11		
Net Value £000s		Gross Value £000s	Impairment Value £000s	Net Value £000s
120,502	Deposits with financial institutions	120,852	(350)	120,502
2,722	Long-term debtors	1,165	0	1,165
47,779	Debtors	48,458	(5,489)	42,969

The debtors' balance represents the amount due to the Council from customers. A bad debt provision of £5.489m is held on the Balance Sheet to provide against the risk of default on debt outstanding.

The following table summaries the Council's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by the Council's treasury advisors, Sector and focuses on the long term investment grade rating issued to each financial institution by Fitch. The highest possible rating is AAA and the lowest rating is BBB:

Spread of Credit Risk	
Rating	**Amount £m**
AAA	19.085
AA-	76.037
Total (excluding impaired investments)	**95.122**

Liquidity risk: The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential and treasury indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

At 31 March 2011, £96.500m[25] of the Council's deposits were due to mature within 364 days.

Refinancing and maturity risk: The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

25 Including impairments

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer-term cash flow needs.

The maturity profile of the Council's financial liabilities is shown below:

Maturity Profile		
Maturity Period	**Approved limits %**	**31/03/11 %**
< 1 year	20.00	6.53
1 – 2 years	20.00	7.93
2 – 5 years	60.00	23.12
5 – 10 years	60.00	20.60
+ 10 years	90.00	41.82

Market risk

Interest rate risk: The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing periods. For example, a rise in interest rates would have the following effects:

- Borrowing at variable rates: the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowing at fixed rates: the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates: the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates: the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact in the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowing and investments will affect the General Fund balance.

The Council is required to carry out a risk assessment on the impact of a change in interest rates on the surplus or deficit for the year. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principal and maturity periods being held constant). The increase in interest rates will only affect the rate applied to variable rate borrowing and investments. The results of this assessment are shown in the following table:

Interest Rate Sensitivity Analysis	2010/11 £000
Increase in interest payable on variable rate borrowing	249
Increase in interest receivable on variable rate investments	(56)
Increase in government grants receivable for financing costs (HRA only)	(137)
Impact on the (surplus)/deficit	**56**
Memorandum items	
Share of overall impact to the HRA	144
Decrease in fair value of fixed rate investments	224
Decrease in the fair value of fixed rate borrowing	66,163

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, the drawing of longer term fixed rates borrowing may be postponed.

The risk of interest rate loss is partially mitigated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates of the Council's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

Price risk: The Council does not generally invest in equity shares but does have shareholdings to the value of £0.559m in Newcastle International Airport, which is not on the stock market. The Council is consequently only exposed to losses arising from movements in the price of these shares if a revaluation of the company showed a fall in its overall valuation.

The Council holds a small number of various gilts with a value at cost of £0.005m which are classified as 'available for sale', meaning that all movements in price would, if considered material, impact on the gains and losses recognised in the Comprehensive Income and Expenditure Statement. The market value of these holdings as at 31 March 2011 was £0.009m and the movement in price is deemed immaterial.

Foreign exchange risk: The Council has no financial assets or liabilities denominated in foreign currencies. It has no exposure to loss arising from exchange rates movements.

b. Financial instrument balances

The borrowings and investments disclosed in the Balance Sheet were made up of the following categories of financial instruments, analysed into long- and short -term:

Financial Instrument Balances			
	Long-Term		
	31/3/09 £000s	31/3/10 £000s	31/3/11 £000s
Financial Liabilities at amortised cost	393,175	426,712	512,972
Total Borrowing	**393,175**	**426,712**	**512,972**
Loans and Receivables	2,817	10,149	0
Available-for-Sale Assets	5	5	5
Unquoted equity investment	1,059	559	559
Total Investments	**3,881**	**10,713**	**564**

Financial Instrument Balances			
	Short-Term		
	31/3/09 £000s	31/3/10 £000s	31/3/11 £000s
Financial Liabilities at amortised cost	31,697	53,451	48,146
Total Borrowing	**31,697**	**53,451**	**48,146**
Loans and Receivables	110,352	110,353	92,150
Available-for-Sale Assets	0	0	0
Unquoted equity investment	0	0	0
Total Investments	**110,352**	**110,353**	**92,150**

Analysis of financial liabilities at amortised cost

Analysis of Financial Liabilities at Amortised Cost				
Total outstanding at 31 March		**Interest rates payable**	**Total outstanding at 31 March**	
2009 £000s	**Source of Loan**		**2010 £000s**	**2011 £000s**
364,334	Public Works Loans Board	1.49% - 13.75%	379,444	440,264
60,538	Other Loan Instruments	0.645% - 4.52%	100,720	120,854
424,872			**480,164**	**561,118**
	Analysis of loan by maturity:			
31,697	**Short-Term Borrowings**		**53,451**	**48,146**
38,695	Maturing in 1 – 2 years		42,240	44,022
101,282	Maturing in 2 – 5 years		110,232	128,378
54,362	Maturing in 5 – 10 years		85,023	108,368
198,836	Maturing > 10 years		189,217	232,204
393,175	**Long-Term Borrowings**		**426,712**	**512,972**
424,872	**Total Borrowings**		**480,163**	**561,118**

Loans and receivables

As at 31 March 2011, no loans and receivables over 364 days were outstanding (2009/10: £13.065m).

Available-for-sale

Available for Sale assets are carried at cost in the Balance Sheet due to the re-measurement in relation to fair value being immaterial, Market Value as at 31 March 2011 was £8,607 (2009/10: £8,403).

c. Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments were made up as follows:

Financial Instrument Gains and Losses			
2008/09 £000s		**2009/10 £000s**	**2010/11 £000s**
8,554	Interest and investment income	1,599	1,426
(27,060)	Interest payable and similar charges	(24,291)	(27,137)
(18,506)	**Total**	**(22,692)**	**(25,711)**

Income received in relation to the available-for-sale assets is considered to be immaterial.

d. Financial guarantee liability

This provides for financial guarantees that the Council enters into that are assessed as being likely to become due in the next financial year. There have been no new guarantees entered into during 2010/11.

e. Basis of charges for capital

The Council administers a consolidated advances and borrowing pool into which all loans raised by the Council are pooled. The average rate of interest charged by the pool was 4.86% in 2010/11 (5.17% in 2009/10).

f. Impairment of investments

In October 2008, Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and two UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration.

Heritable Bank is a UK registered bank under Scottish law. When the company was placed in administration on 7 October 2008, all monies held within Heritable Bank became subject to the respective administration and receivership processes. The administrators will determine the amounts and timing of payments to depositors such as the Council.

On 7 October 2008, the Council had £2.762m deposited with Heritable Bank with varying maturity dates and interest rates.

The creditor progress report issued by the administrators, Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the pound by the end of 2012. The first dividend payment of 16.13p in the pound was received in July 2009 and to date dividends totalling 50.11p in the pound have been received. As dividend repayments continue to exceed the initial prediction the impairment has been based on recovering 90.00p in the pound by January 2013.

The impaired investments are included in the current assets figure in the Balance Sheet at the present value of the expected repayments, discounted using the investments original interest rate. The expected repayments have been estimated as £0.558m in 2011/12 and £0.555m in 2012/13. In 2010/11, accrued interest of £0.076m has been credited to the Comprehensive Income and Expenditure Statement in relation to the impaired investment outstanding.

Regulations[26] issued in 2009 allowed the local authorities not to charge amounts relating to impaired investments to the General Fund until 2010/11.The Council took advantage of this regulation in 2010/11, and the impairment of £0.385m was charged to the Comprehensive Income and Expenditure Statement.

g. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- the new borrowing rates from the PWLB have been applied to provide the fair value of PWLB debts to ensure that the rate used to calculate fair value is a rate currently available from a comparable lender for the same loan;
- for market loans the prevailing rate of a similar instrument with a published market rate has been used, where this was unavailable the assumption above has been applied;
- loans from sources other than the PWLB and the market have not been assessed for fair value and are included in the calculation at the carrying amount. The amounts involved are considered to be immaterial and would have a minimal impact on the calculation of the fair value of the debt held;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount;
- amounts relating to investments in Icelandic banks have been removed from the carrying amounts of total loans and receivables; and
- a consistent approach has been applied to assets and liabilities.

Fair Value of Assets and Liabilities Carried at Amortised Cost

	31/03/09		31/03/10		31/03/11	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB Debt	(364,334)	(411,843)	(379,443)	(414,242)	(440,264)	(440,133)
Non-PWLB Debt	(60,538)	(60,031)	(100,720)	(110,012)	(120,854)	(126,855)
Total Financial Liabilities	**(424,872)**	**(471,874)**	**(480,163)**	**(524,254)**	**(561,118)**	**(566,988)**
Market Loans < 1 year	110,351	110,806	107,437	107,553	82,720	81,709
Market Loans > 1 year	2,817	3,033	13,065	13,095	0	0
Total Financial Assets	**113,168**	**113,839**	**120,502**	**120,648**	**82,720**	**81,709**

26 http://www.legislation.gov.uk/uksi/2009/321/pdfs/uksi_20090321_en.pdf

The fair value of the total financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The differences between the carrying amount and the fair value of total loans and receivables are attributable to fixed interest instruments being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of loans and receivables.

24. Dedicated Schools Grant

School funding for local authorities in England is provided by a ring-fenced grant called Dedicated Schools Grant (DSG) from the Department for Education, whereas previously such support was paid as part of Revenue Support Grant. DSG meets the definition of service-related income and should be accounted for as part of the net cost of services under the Children's and Education Services heading in the Comprehensive Income and Expenditure Statement.

The grant can only be applied to meet expenditure included in the Schools Budget, which provides for two elements. Central Expenditure - which is a restricted range of services provided on a council-wide basis and Individual Schools Budget (ISB) - whereby each school is allocated a delegated budget share. Over- and under-spends on each element are required to be accounted for separately.

Details of the deployment of DSG receivable for 2010/11 are as follows:

Dedicated Schools Grant			
	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2010/11	13,110	95,225	108,335
Brought forward from 2009/10	580	0	580
Carry forward to 2011/12 agreed in advance	0	0	0
Agreed budgeted distribution in 2010/11	**13,690**	**95,225**	**108,915**
Less actual central expenditure	13,165	0	13,165
Less actual ISB deployed to schools	0	95,225	95,225
Less local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	**525**	**0**	**525**

25. Employee benefits

Benefits payable during employment

Benefits Payable during Employment			
2008/09 £000s		2009/10 £000s	2010/11 £000s
322	Central services to the public	301	292
427	Cultural, environmental, regulatory and planning services	399	387
3,405	Children's and education services	3,185	3,089
45	Highways and transport services	42	41
42	Local authority housing	39	38
13	Other housing services	12	12
373	Adult social care	349	339
4,627	**Employee benefits accrued within Net Cost of Services**	4,327	4,198
332	Trading services	310	301
4,959	**Total employee benefits accrued at the Balance Sheet date**	**4,637**	**4,499**

Post-employment benefits

- **Defined Contribution Plan: Teachers' Pension Scheme**

  Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries. The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

  In 2010/11, the Council paid £9.265m to the TPA in respect of teachers' retirement benefits, representing 14% of pensionable pay (the figures for 2009/10 were £9.091m and 14.1%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2010/11, these amounted to £3.144m, representing 4.7% of pensionable pay (£3.161m and 4.9% in 2009/10).

- **Defined Benefit Plan: Tyne and Wear Pension Fund**

  The Tyne and Wear Pension Fund, part of the Local Government Pension Scheme, is administered by South Tyneside Metropolitan Borough Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the pension liabilities with investment assets.

  In 2010/11, the Council paid £34.611m (£30.431m in 2009/10) to the Pension Fund in respect of pension contributions, representing 16.6% of pensionable pay (16.4% in 2009/10).

  The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*. IAS19 accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS19 also includes the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Metropolitan Borough Council.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

Charges to the Comprehensive Income & Expenditure and Movement in Reserves Statements	Funded Liabilities		Unfunded Liabilities	
	31/03/10 £m	31/03/11 £m	31/03/10 £m	31/03/11 £m
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	17.66	26.83	0	0
Past service cost	0.62	(105.12)	1.03	(7.15)
Curtailment / settlement cost	0	0.94	0	0
Financing & investment income and expenditure				
Interest cost	48.32	51.73	4.78	4.29
Expected return on assets	(26.52)	(43.71)	0	**0**
Total post employment benefit charged to the (Surplus) / Deficit on Provision of Services	**40.08**	**(69.33)**	**5.81**	**(2.86)**

Movement in Reserves Charges	Funded Liabilities		Unfunded Liabilities	
	31/03/10 £m	31/03/11 £m	31/03/10 £m	31/03/11 £m
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with IAS19	11.54	(102.6)	0.76	(7.30)
Actual amount charged against the General Fund balance for pension in the year				
Employer contributions payable to the scheme	28.54	33.32		
Retirement benefits payable to pensioners			5.03	4.44

In the UK Budget statement on 22 June 2010, the Chancellor announced that, with effect from 1 April 2011, public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Council's liabilities in the Pension Fund by £117.58m and has been recognised as a negative past service cost in accordance with the guidance set down in UITF Abstract 48[27], since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund or Housing Revenue Account.

27 http://www.frc.org.uk/asb/uitf/pub2477.html

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities:

Changes to the Present Value of the Defined Benefit Obligation during the Accounting Period	Funded Liabilities		Unfunded Liabilities	
	31/03/10 £m	31/03/11 £m	31/03/10 £m	31/03/11 £m
Opening present value	**733.14**	**1,019.82**	**74.41**	**86.09**
Current service cost	17.66	26.83	0	0
Interest cost	48.32	51.73	4.78	4.29
Contributions by scheme participants	8.31	8.45		
Actuarial (gains) and losses	240.42	(10.38)	10.90	0.14
Benefits paid	(28.65)	(32.30)	(5.03)	(4.44)
Past service costs	0.62	(105.12)	1.03	(7.15)
Curtailments	-	0.94	-	-
Closing present value	**1,019.82**	**959.97**	**86.09**	**78.93**

Reconciliation of fair value of the scheme assets:

Reconciliation of the Fair Value of Fund Assets during the Accounting Period	2008/09 £m	2009/10 £m	2010/11 £m
Opening fair value of fund assets	**512.94**	**428.63**	**597.19**
Expected return on assets	35.89	26.52	43.71
Actuarial gains and (losses) on assets	(130.98)	133.84	(2.61)
Employer contributions	26.29	28.54	33.32
Contributions by fund participants	7.85	8.31	8.45
Net benefits paid	(23.36)	(28.65)	(32.30)
Closing fair value of fund assets	**428.63**	**597.19**	**647.76**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rate of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £41.10m (£160.36m in 2009/10).

The Tyne and Wear Pension Fund's assets consist of the following categories, by proportion of the total:

Expected Return on Assets	31/03/09		31/03/10		31/03/11	
	Asset Split	Rate of Return*	Asset Split	Rate of Return*	Asset Split	Rate of Return*
Equity investments	66.1%	7.0%	67.8%	8.0%	68.0%	8.4%
Property	8.4%	6.0%	7.4%	8.5%	8.1%	7.9%
Government bonds	10.2%	4.0%	9.3%	4.5%	7.0%	4.4%
Corporate bonds	10.4%	5.8%	11.4%	5.5%	11.7%	5.1%
Cash	0.7%	1.6%	1.3%	0.7%	1.2%	1.5%
Other assets**	4.2%	1.6%	2.8%	8.0%	4.0%	8.4%
	100.0%	**6.2%**	**100.0%**	**7.3%**	**100.0%**	**7.6%**

* These are long term rates of return. The overall expected rate of return is a weighted average of the individual expected rates of return on each asset class.

** This category includes hedge funds, currency holdings, asset allocation futures and other.

Scheme History Gains and Losses

The liabilities below show the underlying commitment that the Council has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, reducing the overall balance by £117.58m to £391.14m. However, statutory regulations for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary:

Reconciliation of Balance Sheet	Value at 31/03/09 £m	Value at 31/03/10 £m	Value at 31/03/11 £m
Funded			
Fair value of assets	428.63	597.19	647.76
Present value of funded defined benefit obligation	733.14	1,019.82	959.97
Pension liability recognised in Balance Sheet	(304.51)	(422.63)	(312.21)
Unfunded			
Net pension liability	(74.41)	(86.09)	(78.93)
Balance Sheet Liability	**(378.92)**	**(508.72)**	**(391.14)**

History of Asset Values, Present Value of Defined Benefit Obligation and Surplus / Deficit	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Fair value of fund assets	541.77	512.94	428.63	597.19	647.76
Present value of the defined benefit obligation					
- Funded liabilities	(762.45)	(681.95)	(733.14)	(1,019.82)	(959.97)
- Unfunded liabilities	(75.70)	(71.32)	(74.41)	(86.09)	(78.93)
Surplus / (Deficit)	(296.38)	(240.33)	(378.92)	(508.72)	(391.14)

History of Experience Gains and Losses

The actuarial gains / losses identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

History of Experience Gains and Losses					
	2006/07	2007/08	2008/09	2009/10	2010/11
Funded liabilities					
Experience gains / (losses) on assets					
- Amount (£m)	(3.23)	(73.37)	(130.98)	133.84	(2.61)
- Percentage of fund assets	(0.6%)	14.3%	(30.6%)	22.4%	(0.4%)
Experience gains / (losses) on liabilities					
- Amount (£m)	(2.20)	12.04	(3.43)	9.73	9.86
- Percentage of fund assets	(0.3%)	1.8%	(0.5%)	1.0%	1.0%
Unfunded liabilities					
Experience gains / (losses) on liabilities					
- Amount (£m)		(0.52)	(0.91)	2.47	0.59
- Percentage of fund assets		(0.7%)	(1.2%)	2.9%	0.7%

In accordance with IAS19, unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gains / (losses) on liabilities shown has not been re-stated for periods ending in 2005, 2006 and 2007 and includes the experience relating to unfunded liabilities.

Expected Future Contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Council for the accounting period to 31 March 2012 are estimated to be £30.03m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £4.42m directly to beneficiaries.

Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projection unit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rates, salary levels etc. Aon Hewitt Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Fund's assets and liabilities in accordance with IAS19 based upon the latest actuarial valuation of the fund as at 31 March 2010.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2011:

Principal Financial and Mortality Assumptions				
	Funded Liabilities		Unfunded Liabilities	
	2009/10	2010/11	2009/10	2010/11
Financial Assumptions (% per annum)				
Discount rate	5.5%	5.4%	5.5%	5.5%
Rate of inflation - RPI	3.9%	3.7%	3.8%	3.6%
Rate of inflation - CPI	N/A	2.8%	N/A	2.7%
Rate of increase to pensions in payment	3.9%	2.8%	3.8%	2.7%
Rate of increase to deferred pensions	3.9%	2.8%	N/A	N/A
Rate of increase in salaries	5.4%	5.2%	N/A	N/A
Take-up of option to convert annual pension into retirement lump sum (pre 1 April 2008)	50%	50%	N/A	N/A
Take-up of option to convert annual pension into retirement lump sum (post 31 March 2008)	75%	75%	N/A	N/A
Mortality Assumptions				
Longevity at 65 for current pensioners:				
Men	20.0	21.5	20	21.5
Women	22.9	23.7	22.9	23.7
Longevity at 65 for future pensioners (currently aged 45):				
Men	22.2	23.3	N/A	N/A
Women	25.1	25.6	N/A	N/A

26. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods:

Debtors						
31/03/09 £000s			31/03/10 £000s		31/03/11 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
22,066	0	Central government bodies	12,776	0	11,354	0
7,616	0	Other local authorities	1,839	0	4,324	0
0	0	NHS bodies	0	0	2,605	0
2,528	0	Other public bodies	5,761	0	555	0
22,693	1,752	Bodies external to government	27,403	2,722	24,131	1,165
54,903	**1,752**		**47,779**	**2,722**	**42,969**	**1,165**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies.

A bad debt provision of £5.489m is held on the Balance Sheet to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2009/10: £5.501m).

27. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

Cash and Cash Equivalents			
31/03/09 £000s		31/03/10 £000s	31/03/11 £000s
4,010	Cash held by officers	401	523
(20,036)	Bank current accounts	(32)	(385)
0	Short-term deposits with building societies	7,209	4,577
(16,026)	**Total cash and cash equivalents**	**7,578**	**4,715**

28. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It may also include income received in advance, such as council tax relating to 2011/12:

Creditors						
31 March 2009 £000s			31 March 2010 £000s		31 March 2011 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
(8,113)	0	Central government bodies	(9,324)	0	(10,711)	0
(8,241)	0	Other local authorities	(7,016)	0	(3,566)	0
0	0	NHS bodies	0	0	(1,508)	0
0	0	Other public bodies	0	0	(10,597)	0
(43,016)	(47,581)	Bodies external to government	(74,094)	(46,989)	(52,849)	(44,759)
(59,370)	**(47,581)**		**(90,434)**	**(46,989)**	**(79,231)**	**(44,759)**
		Other long-term liabilities:				
0	(378,914)	Pension liability	0	(508,691)	0	(391,118)

29. Provisions, contingent liabilities and contingent assets

Provisions

Provisions (Long- and Short-Term)						
Balance at 31/03/09 £000s	Balance at 31/03/10 £000s		Receipts £000s	Payments £000s	Reversals £000s	Balance at 31/03/11 £000s
(3,974)	(4,191)	Insurance	0	0	118	**(4,073)**
(1,717)	0	Job evaluation	0	0	0	**0**
0	0	Workforce management	(10,000)	0	0	**(10,000)**
(595)	(418)	Improvement contracts	0	0	0	**(418)**
(165)	(61)	Sundry	0	11	0	**(50)**
(277)	0	LES remedial works	0	0	0	**0**
0	(12,639)	Equal Pay General Fund	0	3,097	0	**(9,542)**
0	(1,267)	Equal Pay Schools	0	163	0	**(1,104)**
0	(536)	Equal Pay HRA	0	12	0	**(524)**
(6,728)	**(19,112)**	Total Provisions	**(10,000)**	**3,283**	**118**	**(25,711)**

Contingent Liabilities

Dilapidation costs for Team Valley Business Centre
Economic Development vacated Team Valley Business Centre in February. The Council's Property Services are in negotiations with English Partnerships.

Equal Pay Claims
The Council has settled a number of equal pay claims during 2010/11. A significant number of claims remain outstanding and it likely that the Council will receive more in the near future. Assuming any new claims are similar to the existing claims they too will be settled, however, precise figures cannot be given at this stage but any new claims will be limited to a period from 2006 to 2009.

Lands Tribunals at Mill Road
To ensure delivery of development at Gateshead Quays, a compulsory purchase order (CPO) was made in respect of land at Mill Road.

The CPO process provided the owners with the opportunity to challenge the Council's valuations. Any owner may apply to Lands Tribunal up to six years from the date at which properties vested with the Council, to claim additional compensation i.e. to challenge the Council's value of their land. The claim was made in June 2008 for £3.9m; however the Council's valuation is £0.110m. The case is due to be heard in September 2011.

The Council has a contingent liability arising from this purchase as the cost of this liability remains uncertain.

Neighbourhood Nurseries
The Council has a potential legal liability relating to clawback provisions within the European Regional Development Fund and Big Lottery Fund grant conditions in respect of capital invested in four Neighbourhood Nurseries. Clawback will only be triggered if they fail to agree that a new provider/s is still fulfilling the terms of the grant or if that provider/s fails and a

replacement cannot be found. This particular element subsists until 2025. A final picture will not be known until September 2011.

Repairs and Maintenance Contracts
Under agreements associated with the repairs and maintenance contracts between the Council and Morrisons Facilities Services Ltd, there are potential pension liabilities which would revert back to the Council should the contracts return in-house. The Council entered into pension admission agreements under which it could be liable to the Tyne and Wear Pension Fund to fund deficiencies in the funding of pension benefits. The potential costs associated with this liability are currently unknown.

Schools PFI Contract
The Council has a potential legal liability relating to contractual provisions within the schools PFI contract. There are liabilities relating to changes prior to staff transfer (from the Council to the contractor) and relating to pension liabilities. The issues are subject to ongoing negotiations and as such the costs are as yet unknown.

Sunderland Road CPO Unsettled Compensation Claims
The Council approved a strategy to regenerate Sunderland Road in 2002 in response to deteriorating living conditions in the area and a significant decline in the housing market. A key component of the strategy was the acquisition and clearance of properties to the north of Sunderland Road and redevelopment of the land for housing. Funding to meet the cost of acquiring and demolishing properties in this area was secured from Bridging NewcastleGateshead (BNG), the Housing Market Renewal Pathfinder. To ensure delivery of the strategy, a compulsory purchase order (CPO) was made in support of the proposal.

The CPO process provided owners with the opportunity to challenge the Council's valuations. Any owner may apply to Lands Tribunal up to six years from the date at which properties vested with the Council, to claim additional compensation i.e. to challenge the value of their property. The timing of the claim could be anytime within this period, and the value unknown. In addition, interest accrues from the date of vesting with the Council.

The cases where home owners took their cases to the Lands Tribunal have been settled in 2010/11 and negotiations will take place with owners which did not take their case to the Lands Tribunal in 2011/12 to settle the remaining cases.

Wardley Colliery
The Council are in discussions with the owners of Wardley Colliery over the possible redevelopment of the site for housing. If these negotiations are unsuccessful local councillors may serve a S215 Notice under the provisions of the Town and Country Planning Act 1990 in order to improve the amenity of the area. The works have not been formally costed but the known presence of asbestos on the site will mean demolition and the removal of the waste will have to be carried out in an approved manner which will increase costs substantially, the cost is estimated at £0.08m.

30. Amenity and trust funds

The Council administers funds relating to specific services:

- Social Services Amenity Funds are varied in nature and relate principally to sums held on behalf of Social Services clients and legacies left by individual inhabitants over a period of years;
- Children & Families Funds are varied in nature and relate principally to sums held on behalf of Children & Families clients;

- Shipley Gallery Charity Fund used to contribute to the care and development of the Gallery's collection; and
- Blind Welfare Trust Fund used to purchase equipment to aid persons with visual impairments.

The funds do not represent assets of the Council and are not included in the Balance Sheet, and are summarised below:

Amenity and Trust Funds				
Balance at 31/03/10 £000s	**Fund**	**Receipts £000s**	**Payments £000s**	**Balance at 31/03/11 £000s**
26	Social Services Amenity Fund	5	5	26
176	Children & Families	33	20	189
14	Shipley Gallery Charity	0	0	14
26	Blind Welfare Trust Fund	0	0	26
64	Other	1	1	64
306	**Total Trust Funds**	**39**	**26**	**319**

31. Events after the Balance Sheet date

No events after the Balance Sheet date have been noted.

32. Back pay arising from equal pay claims

The Council has received a number of legal claims from previous and current employees relating to equal pay. A capitalisation direction has been received to enable the Council to spread the potential cost of these claims over a number of years.

The Council has used statutory powers[28] which gives discretion not to charge to revenue the impact of equal claims until such time as they become payable. The Equal Pay Back Pay Account is used to hold the amounts which have been deferred from being charged to the General Fund, after using the capitalisation direction, under the powers.

No changes have been made to the account in 2010/11.

[28] Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007 No 573) Regulation 30A

Part 3: Supplementary Financial Statements

Comprising:

- ## Housing Revenue Account
  HRA Income and Expenditure Statement
  Movement on the HRA Statement
  Notes to the HRA

- ## Collection Fund
  Collection Fund Statement
  Notes to the Collection Fund Statement

Housing Revenue Account

HRA Income and Expenditure Statement

2009/10 £000s		2010/11 £000s	Note
	Expenditure		
18,544	Repairs and maintenance	16,790	
17,596	Supervision and management	17,211	
5,220	Special services	5,435	
2,009	Rents, rates, taxes and other charges	2,359	
0	Negative HRA subsidy payable	6,733	11
21,171	Depreciation on non-current assets	13,636	8
68,363	Impairment of non-current assets	318,110	9
334	Debt management charges	341	
363	Increased provision for bad or doubtful debts	255	13
133,600		**380,870**	
	Income		
(62,163)	Dwelling rents (gross)	(63,167)	16
(1,193)	Non-dwelling rents (gross)	(1,174)	
(2,197)	Charges for services and facilities	(2,310)	
(535)	Leaseholders charges for services and facilities	(526)	
(2,276)	Contributions towards expenditure	(1,036)	
(14,644)	HRA subsidy receivable	(282)	11
(83,008)		**(68,495)**	
50,592	**Net Cost of HRA Services, as included in the Council's Comprehensive Income and Expenditure Statement**	**312,375**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(822)	(Gain) or loss on sale of HRA non-current assets	(503)	
14,694	Interest payable and similar charges	15,767	
(294)	HRA Interest and investment income	(165)	
64,170	**(Surplus) or deficit for the year on HRA services**	**327,474**	

Movement on the HRA Statement

This statement shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year:

2009/10 £000s		2010/11 £000s	Note
(18,191)	**Balance on the HRA at the end of the previous reporting period**	**(16,854)**	
64,170	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	327,474	
(62,833)	Adjustments between accounting basis and funding basis under regulations	(326,947)	1
1,337	Net increase or decrease before transfers to or from reserves	527	
1,337	**(Increase) or decrease in year on the HRA**	**527**	
(16,854)	**Balance on the HRA at the end of the current reporting period**	**(16,327)**	

Notes to the HRA

1. Net additional amount required by statute to be debited or (credited) to the HRA balance for the year

2009/10 £000s	Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year	2010/11 £000s
	Adjustments between accounting basis and funding basis under regulations:	
1,317	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	1,126
(69,438)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(318,320)
822	Gain or loss on sale of HRA non-current assets	503
244	HRA share of contributions to or from the Pensions Reserve	69
306	Capital expenditure funded by the HRA	53
3,916	Transfer to/from the Major Repairs Reserve	(10,378)
(62,833)	**Net additional amount to be debited or (credited) to the HRA balance for the year**	**(326,947)**

2. Housing stock & Balance Sheet valuation

The number of council dwellings by type during 2010/11 was as follows:

01/04/10	Housing Stock & Balance Sheet Valuation	31/03/11
	Stock numbers:	
11,950	Houses	11,900
6,260	Flats	5,980
3,098	Bungalows	3,104
21,308		**20,984**
£000s	**Values:**	**£000s**
1,028,999	Property, plant & equipment - Council dwellings	733,554
4,228	Property, plant & equipment - other land & buildings	4,827
141	Property, plant & equipment - vehicles & equipment	85
443	Property, plant & equipment - surplus	443
180	Assets held for sale	180
1,033,991	**Total value of land, houses & other property in the HRA**	**739,089**

3. Vacant possession value

The Balance Sheet value is calculated based on rents receivable from existing tenants. These rents are lower than would be available on the open market. The Vacant possession value of the HRA dwellings at 1 April 2010 was £2,019m (£2,059m at 1 April 2009).The difference between the two values reflects the economic cost of providing social housing at less than market value.

4. Major Repairs Reserve

The movement on the Council's Major Repairs Reserve (MRR) was as follows:

Major Repairs Reserve		
2009/10 £000s		**2010/11 £000s**
(2,616)	**Balance on the Major Repairs Reserve as at 1 April**	0
(25,087)	Amounts transferred to the Major Repairs Reserve during the financial year	(13,636)
0	Amounts transferred from the Major Repairs Reserve during the financial year	10,378
27,703	Debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses & other property within the HRA	3,258
0	**Balance on the Major Repairs Reserve as at 31 March**	**0**

5. Housing Repairs Account

The Council does not operate a ring-fenced Housing Repairs Account.

6. Capital expenditure

The total HRA capital expenditure in 2010/11 was as follows:

Capital Expenditure		
2009/10 £000s		**2010/11 £000s**
	Expenditure:	
72,121	Dwellings	37,061
9	Other property	5,728
24	Vehicles, plant and equipment	1
587	Revenue expenditure funded from capital under statute	213
72,741	**Total Capital Expenditure**	**43,003**
	Funded by:	
(44,722)	Borrowing	(36,744)
(9)	Capital Receipts Reserve	0
(306)	Revenue contributions	(53)
0	Capital grants	(2,948)
(27,704)	Major Repairs Reserve	(3,258)
(72,741)	**Total Funding**	**(43,003)**

7. Capital receipts during the financial year

During 2010/11, the total receipts from disposal of HRA assets by type were: -

Capital Receipts during the Financial Year		
2009/10 £000s		2010/11 £000s
(700)	Land	0
(746)	Dwellings	(1,453)
0	Other property	0
(1,446)	**Total Receipts**	**(1,453)**

8. Depreciation

The Council's policy is to depreciate HRA assets over 50 years based on their actual value. Land is not depreciated as it has an infinite life. The total depreciation charges were as follows:

Depreciation		
2009/10 £000s		2010/11 £000s
21,000	Operational assets - dwellings	13,446
113	Operational assets - other land & buildings	126
58	Non-operational assets	64
21,171	**Total**	**13,636**

9. Impairment charges

The Council values its Council dwellings every year using the 'existing use value - social housing' basis and applies a specified adjustment factor as part of this process. There has been a material change in the adjustment factor applied to the valuation of Council dwellings, falling from 51% to 37% of net book value for the North East of England, which has resulted in a £318m impairment of Council dwellings during 2010/11:

Impairment Charges		
2009/10 £000s		2010/11 £000s
68,303	Operational assets - dwellings	318,110
60	Operational assets - other land & buildings	0
68,363	**Total**	**318,110**

10. Revenue expenditure funded from capital under statute attributable to the HRA

Charges calculated in accordance with proper practices in respect of revenue expenditure funded from capital under statute totalling £0.212m in 2010/11 in respect of HRA assets as detailed below:

Revenue Expenditure Funded from Capital under Statute Attributable to the HRA		
2009/10 £000s		2010/11 £000s
484	Home loss payments	188
94	Demolition works	24
9	Disabled access works	-
587	**Total**	**212**

11. HRA subsidy

The HRA subsidy for the financial year can be broken down as follows:

HRA Subsidy		
2009/10 £000s		2010/11 £000s
(34,727)	Allowance for management & maintenance	(35,679)
(25,087)	Allowance for major repairs	(3,259)
(17,284)	Charges for capital	(18,023)
(77,098)		**(56,961)**
62,082	Assumed rent income	63,694
1	Interest on receipts	0
(15,015)		**6,733**
371	Adjustments (previous years)	(282)
(14,644)	**Total (receivable) / payable**	**6,451**

12. HRA share of contributions to/from the Pensions Reserve

Council employees are eligible to join the Local Government Pension Scheme (Tyne and Wear Pension Fund) and so are eligible for retirement benefit. This includes employees accounted for within the HRA. The benefits will not actually be paid until the employee retires but the requirements of International Accounting Standard 19 (IAS19) – Employee Benefits, call for the commitment to make these payments in the future to be disclosed within the HRA. The actuary's assessment of the commitment relating to employees accounted for within the HRA is included within the supervision and management line of the HRA Income and Expenditure Statement.

Regulation 30 of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 requires revenue accounts (including the HRA) to be charged with the cost of retirement benefits on the basis of the payments and contributions required by legislation. The actuary's assessment of the reduction in current service cost below the cash cost is £0.069m and has been reversed in the Movement on the Housing Revenue Account Balance Statement through a contribution from the Pensions Reserve. This transfer ensures that the Council complies with Regulation 30.

13. Rent arrears

The amount of rent arrears at 31 March 2011 was £4.753m (£5.053m at 31 March 2010).The aggregate Balance Sheet provision in respect of uncollectable debts at 31 March 2011 is £3.253m (£3.375m at 31 March 2010). Movement during the year relates to write-offs of uncollectable rent of £0.378m and an increase in provision of £0.255m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

14. Sums directed by the Secretary of State to be debited or credited to the HRA

There were no such items affecting the HRA in 2010/11.

15. Exceptional items and prior year adjustments

Exceptional items for 2010/11 not disclosed separately on the face of the HRA Income and Expenditure Statement were as follows:

- Item 1: Impairment charges with regard to downward revaluations of the housing stock as per Note 9.
- Item 2: Voluntary redundancy costs in respect of the Gateshead Housing Company totalled £0.728m.

16. Rent

The gross rent for dwellings is the total rent due for the year after allowance is made for voids (vacant properties) and redecoration. During the year 1.3% of the lettable properties were vacant (1.4% in 2009/10). Average rents were £60.39 per week in 2010/11, an average increase of 2.48% on the previous year.

17. Rent Rebate

The Local Government Act 2003 transferred responsibility for administering rent rebates from the HRA to the General Fund from 1 April 2004. This brings together accounting for rent rebates and rent allowances within the General Fund. Rent rebates are available for those on low incomes. Some 66% of the Council's tenants receive some help with the cost of rent.

18. The Gateshead Housing Company

The Council's housing stock is managed and maintained by the Gateshead Housing Company. The HRA includes management fee payments to the company of £32.273m in 2010/11 (£34.182m in 2009/10) and is broken down as follows:

The Gateshead Housing Company		
2009/10 £000s		**2010/11 £000s**
18,420	Repairs and maintenance	16,722
13,096	Supervision and management	12,661
2,079	Special services	1,977
587	Rents, rates, taxes & other charges	913
34,182	**Total management fee**	**32,273**

Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to the Council, Northumbria Police Authority, the Tyne & Wear Fire and Rescue Authority and the government of council tax and non-domestic rates.

2009/10 £000s		2010/11 £000s	Notes
	Amounts required by statute to be credited to the Collection Fund		
(72,022)	Income from council tax	(73,256)	
(21,491)	Council tax benefit transferred from the General Fund	(22,284)	
(75,534)	Income collectable from business ratepayers	(79,727)	
(169,047)	**Total Income**	**(175,267)**	
	Amounts required by statute to be debited to the Collection Fund		
	Precepts and demands:		
83,639	- Gateshead MBC (including a parish council)	85,361	
4,802	- Northumbria Police Authority	4,949	
4,281	- Tyne and Wear Fire and Rescue Authority	4,327	
	Surplus transfers:		
1,500	- Gateshead MBC (including a parish council) transfer	1,400	
86	- Northumbria Police Authority transfer	82	
79	- Tyne and Wear Fire and Rescue Authority transfer	73	
	Business rates:		
75,043	- payments to national pool	79,440	
291	- costs of collection	287	
	Impairment of debts/appeals:		
(382)	- write-offs of uncollectable amounts	(593)	
582	- allowance for impairment	593	
170,491	**Total expenditure**	**175,919**	
874	**Movement on fund balance during the year**	652	
(1,018)	**Brought Forward Balance**	**(144)**	
(144)	**Balance Carried Forward**	**508**	3

Notes to the Collection Fund Statement

1. National Non-Domestic Rates (NNDR)

The government specifies an amount and, subject to the effects of small property relief and transitionary arrangements, local businesses pay rates calculated by multiplying their rateable value by this amount. The Council is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into an NNDR pool administered by the government. The government redistributes the sums paid into the pool back to local authorities' general funds on the basis of a fixed amount per head of population.

NNDR Values		
2009/10		**2010/11**
48.5p	Rate in the pound	41.4p
*£211.295m	Total non-domestic rateable value	£214.840m

* Revised due to a reassessment of rateable values in 2010/11.

2. Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimated at 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and preceptors for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and further adjusted for discounts). The table below shows the calculation of the council tax base:

Council Tax Bandings

Valuation as at 1 April 1991	Proportion of band D charge[29]	Number of properties		Band D equivalent properties[30]	
		2009/10	**2010/11**	**2009/10**	**2010/11**
Band A - Up to £40,000 (disabled reductions)	5/9	0	152	0	85
Band A - Up to £40,000	6/9	47,899	47,759	31,917	31,839
Band B - £40,001 to £52,000	7/9	10,100	10,194	7,856	7,929
Band C - £52,001 to £68,000	8/9	12,993	12,985	11,549	11,542
Band D - £68,001 to £88,000	9/9	4,823	4,824	4,823	4,824
Band E - £88,001 to £120,000	11/9	1,939	1,946	2,370	2,378
Band F - £120,001 to £160,000	13/9	705	709	1,018	1,024
Band G - £160,001 to £320,000	15/9	327	331	545	552
Band H - Over £320,000	18/9	12	11	24	22
		78,798	**78,911**	**60,102**	**60,195**

Band D Council Tax		
	2009/10	**2010/11**
Council tax for a band D property	£1,570.10	£1,600.04

29 Council tax charges are calculated as proportions of band D
30 This column illustrates the weighted average number of properties in the borough

3. Agency relationship with preceptors

Council tax income is collected on behalf of the preceptors as well as the billing authority (the Council). This is known as an agency relationship, although it does not impact on the Collection Fund. It does, however, change the way that the Council must account for council tax and NNDR within the General Fund.

As the Collection Fund comprises income owed to the preceptors at the year-end, their respective balance sheets must reflect this (with the creation of debtors within the Council's Balance Sheet):

Analysis of Closing Collection Fund Balances by Preceptor

2009/10 £000s		2010/11 £000s
	Closing balance:	
(130)	Gateshead Council	458
(7)	Northumbria Police Authority	27
(7)	Tyne and Wear Fire and Rescue Authority	23
(144)		**508**

The amount due to the Council is shown on the Balance Sheet in the Collection Fund Adjustment Account. It represents the Council's share of the surplus / deficit within the Collection Fund held by the Council as billing authority on behalf of itself and the preceptors.

A number of other adjustments are also necessary within the Balance Sheet and Cash Flow Statement to correctly account for any agency transactions (such as arrears, bad debt provisions, overpayments and prepayments).

Appendix 1: Summary of Changes in 2010/11

Changes from the SORP[31] 2009

The SORP formed the mandatory basis for local government accounts preparation for many years, and was based on UK regulations and financial reporting standards, adapted or interpreted for the public sector. Due to the government's move to international financial reporting standards (IFRSs), the SORP has now been replaced by the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 Based on International Financial Reporting Standards*. While the same laws and regulations still apply, UK financial reporting standards have been superseded with international ones, which have introduced a significant number of changes to the format and content of the statements. The main changes which apply to the local authorities are as follows:

Recognition and measurement

The Code introduces different criteria for recognition and basis of measurement for some elements of the financial statements.

Grants and contributions

The Code requires grants and contributions relating to capital expenditure to be credited to the Comprehensive Income and Expenditure Statement once any condition(s) of the grant has been satisfied. The SORP 2009 treated the grant and contributions as deferred income, credited to the Income and Expenditure Account over the useful life of the relevant asset.

The impact of these changes on the financial statements is very significant. The key changes are as follows:

- The removal of the Government Grants Deferred Account has led to £238m in outstanding liabilities being removed from the Balance Sheet (with a balancing adjustment to the Capital Adjustment Account);
- A Capital Grants Unapplied reserve has been created to hold any grants unspent at the Balance Sheet date (£11.2m at 31 March 2009 and £29.8m at 31 March 2010);
- Where capital grants remain with unsatisfied conditions, these will be treated as long-term liabilities on the Balance Sheet;
- Within the Comprehensive Income and Expenditure Statement, a credit of £23.6m has been made to account for capital grant receipts in 2009/10. A credit of £38.6m has been made to adjust for the removal of the Government Grants Deferred Account, along with debits totalling £16.1m made to Service lines within Net Cost of Services (net £22.6m credit); and
- All adjustments above have been taken through the new Movement in Reserves Statement wherever necessary.

Donated Assets Account

The Code requires a Donated Assets Account to be used in relation to donated assets transferred to the Council, where conditions of the transfer have not been met. The SORP 2009 treated donated assets as deferred income credited to the Government Grants

[31] CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice*

Deferred Account and charged to the Income and Expenditure Account over the useful life of the relevant asset.

Explanatory foreword

The recommended topics include some topics not included in SORP 2009. These are significant provisions, contingencies and write-offs; material events after the balance sheet date; and an explanation of the impact of the current economic climate on the Council. The latter topic was recommended in LAAP Bulletin 81[32].

In addition, a recommended topic regarding changes of accounting policy has been expanded to include, in 2010/11, the transition to an IFRS-based accounting basis.

Prior period errors

The SORP 2009 requires authorities to correct prior period errors where the errors are fundamental. A fundamental error is one that is of such significance as to invalidate the financial statements. A fundamental error is an order of magnitude greater than a material error. The Code, in line with IAS 8[33] and IPSAS 3[34], requires restatement for material errors, which may lead to restatements being required more frequently.

Future changes to accounting

The Code requires disclosure of future changes to accounting policies that is not required by the SORP.

New statements

The Code introduces the Movement in Reserves Statement. This statement, along with any related notes, replaces the Statement of Movement on the General Fund balance and the note on the movement in reserves.

The Code introduces the Comprehensive Income and Expenditure Statement, which replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

The format of the Balance Sheet and the Cash Flow Statement are different under the Code than under the SORP.

The Council has changed the presentation of the Cash Flow Statement in 2010/11. Previously, the direct method was used; this has now been amended to the indirect method. While not an IFRS change, this method brings the Council's Cash Flow Statement in line with Whole of Government Accounts reporting requirements.

Cash and cash equivalents

The Code requires 'cash and cash equivalents' to be presented in the Balance Sheet and reported as cash flows in the Cash Flow Statement. The SORP (following FRS 1[35] *Cash Flow Statements)* did not use the concept of cash equivalents and required the movement of cash (cash in hand and deposits repayable on demand, less overdrafts) to be reported in the Cash Flow Statement.

Transitional Balance Sheet arrangements

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32 See http://www.cipfa.org.uk/pt/download/laap81.pdf
33 See http://www.ifrs.org/IFRSs/IFRS+technical+summaries/IFRS+summaries.htm for a summary of IFRSs
34 See http://www.ifac.org/PublicSector/ for further information on the International Public Sector Accounting Standards Board
35 See http://www.frc.org.uk/asb/technical/standards.cfm

The Code requires an authority to present a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) when it applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The SORP did not include this requirement.

Notes changes

The Code has different requirements to the SORP in relation to the notes to the financial statements; these include the disclosure of key sources of estimation uncertainty and significant judgements in applying accounting policies.

Segmental reporting

The Code introduces segment reporting, which requires a subjective analysis to be included in the notes.

Extraordinary expenditure

The Code does not permit authorities to present any items of income or expenditure as 'extraordinary'.

Housing Revenue Account

The format of the HRA statements has changed to match the introduction of the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement elsewhere in the Code.

There are no other explicit changes to the presentation and disclosure requirements for the HRA. However changes elsewhere in the Code may require transactions to be accounted for or presented differently.

Related parties

The Code does not deem certain parties as related parties, i.e. providers of finance in the course of their normal business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency.

Property, plant and equipment

The Code uses the same recognition criteria for subsequent expenditure as initial expenditure with regard to capitalisation. The SORP has separate criteria for enhancement expenditure, i.e. expenditure can be capitalised where the expenditure 'extends the economic life of the asset', which is not a requirement of the Code. However, it is not expected that this will result in different accounting treatments.

The SORP required the separate recognition of two or more significant components of an asset for depreciation purposes (i.e. as if each component was a separate asset in its own right) where the useful life is substantially different. However, this section of the Code has a greater emphasis in this area and defines significant in the context of 'the cost that is significant in relation to the total cost of the asset'.

The Code requires that, where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the Code's recognition principles being met. This includes the derecognition of parts of an asset not previously recognised as a separate component.

The Code requires residual values to be based on current prices at the Balance Sheet. The SORP defines residual values as being based on prices prevailing at the date of the acquisition (or revaluation) of the asset and which do not take account of expected future price changes.

Renewals accounting is not permitted under the Code.

Under the Code there is a clear distinction between an impairment loss and revaluation loss. Under the SORP this was not explicit.

The Code requires a revaluation decrease charged to the Surplus or Deficit on the Provision of Services to be reversed where there is a subsequent revaluation gain on the same asset. Under the SORP the reversal of a revaluation decrease (i.e. fall in prices not specific to an asset) was conditional on the events that resulted in the decrease and the subsequent gain being linked.

The financial statements have been amended for both 2008/09 and 2009/10 to adjust for required changes under the Code:

- Assets have been moved between *Property, Plant and Equipment*, *Investment Property* and *Assets Held for Sale*, with net reductions in the value of non-current assets of £4.4m in 2008/09 and £17.7m in 2009/10 (for this latter adjustment, the amount is required to go through the *Other Comprehensive Income and Expenditure* subtotal line of the Comprehensive Income and Expenditure Statement)
- All adjustments above have been taken through the new Movement in Reserves Statement wherever necessary

Leases

The Code requires the land and buildings elements of a lease of land and buildings to be classified and accounted for separately. This requirement did not exist in the SORP, and a lease of land and buildings was classified and accounted for as a single lease.

One of the factors that indicate a lease is a finance lease is if 'the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset'. Under the SORP, 'substantially all' was quantified as 'normally 90% or more'. This quantitative test does not apply under the Code, and authorities will need to use professional judgement when assessing 'substantially all'.

Under the Code, finance income shall be calculated so as to produce a constant periodic rate of return on the net investment. Under the SORP, the finance income was calculated so as to give a constant periodic rate of return on the net cash investment. This difference in treatment may lead to income being recognised in different periods.

The Code requires initial direct costs to be added to the carrying amount of the asset in some circumstances. This was not covered by the SORP, but was a permissible (rather than required) treatment under SSAP 21 *Accounting for Leases and Hire Purchase Contracts*[36].

The Code specifies the accounting treatment for sale and leaseback transactions. The accounting treatment was not covered by the SORP, but was set out in SSAP 21. The requirements of the Code are consistent with those of SSAP 21.

[36] http://www.frc.org.uk/asb/technical/standards.cfm

The Code specifies the accounting treatment for arrangements containing a lease (IFRIC 4 *Determining whether an Arrangement contains a Lease*). This was not covered by the SORP, but similar results may have arisen from an application of FRS 5 *Reporting the Substance of Transactions*[14].

Lease adjustments restating the 2009/10 financial statements were as follows:

- £3.5m has been removed from *Property, Plant and Equipment* to derecognise assets under finance leases;
- £1.3m has been added into *long-term debtors* to recognise assets under finance leases;
- A *long-term liability* of £0.3m has been recognised;
- To balance the above, £0.6m has been debited to the Revaluation Reserve and £3.1m to the Capital Adjustment Account; and
- Within the Comprehensive Income and Expenditure Statement, £2.4m has been included under the *Other Comprehensive Income and Expenditure* line.

PFI

There have been no changes in accounting for PPP and PFI arrangements since SORP 2009 (when the majority of PFI assets came back onto authorities' balance sheets). However, the adoption of IFRS means that the accounting arrangements for group accounts have changed. The operator for a PFI and PPP arrangement may be a special purpose entity (SPE). SIC 12 *Consolidation – Special Purpose Entities* requires an authority to consolidate an SPE where the substance of the relationship between the authority and the SPE indicates that the SPE is controlled by that authority. Whilst it is considered unlikely that an authority will control the SPE, it will need to satisfy itself that this is the case; and will need to consolidate the SPE (in accordance with chapter nine of the Code) where it does have control.

Investment properties

SORP 2009 required investment property to be carried at market value. The Code requires investment property to be carried at fair value; as fair value will normally be based on market value, this change is not expected to result in any material change to the carrying amount of investment property.

SORP 2009 required revaluations of investment property to be adjusted through the revaluation reserve in the first instance. The Code requires changes to fair value to be taken to Surplus or Deficit on the Provision of Services (and then reversed out to the Capital Adjustment Account).

SORP 2009 required investment property under construction to be accounted for at cost. The Code requires investment property under construction to be accounted for at fair value once an authority is able to measure reliably the fair value of the investment property.

SORP 2009 required investment property held under a lease to be depreciated where the unexpired term was 20 years or less. This requirement has been removed in the Code, although the requirement to fair value the lease interest will have a similar effect.

As at 31 March 2010, the Council's investment properties were valued at £8.4m. Following the transition to the Code, £8.2m of these have been reclassified as *Property, Plant and Equipment* leaving £0.150m within *Investment Properties*.

Intangible assets

Following FRS 10 *Goodwill and Intangible Assets*[37], the SORP 2009 stated that internally developed intangible assets shall only be capitalised where there was a readily ascertainable market value, which was unlikely to occur in local authorities. IAS 38 *Intangible Assets*[38] recognises a wider range of intangible assets, and internally generated intangible assets may be recognised provided the criteria in IAS 38 are met.

The SORP 2009 stated that there was a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. No such presumption is now made.

The SORP required impairment arising from the consumption of economic benefits to be charged to the Income and Expenditure Account in all cases. All impairments are now taken to the Revaluation reserve in the first instance, and will only be charged to Surplus or Deficit on the Provision of Services once the balance on the reserve in relation to the intangible asset has been reduced to zero.

Asset impairment

The Code requires that an annual assessment shall take place as to whether there is any indication that an asset may be impaired. If any indication exists, the recoverable amount shall be estimated. There is no longer a specific requirement to undertake an impairment assessment of assets when either a) no depreciation charge is made on the grounds that it would be immaterial (either because of the length of the estimated remaining useful life or because the estimated residual value of the asset is not materially different from the carrying amount of the asset), or b) the estimated remaining useful life of the asset exceeds 50 years. In addition, IAS 36 does not exempt non-depreciable land from impairment reviews.

IAS 36 *Impairment of Assets* makes no distinction between impairments due to the clear consumption of economic benefit and other impairments (i.e. general fall in prices specific to the asset). In line with IAS 36, the Code requires **all** impairment losses on re-valued assets to be recognised in the Revaluation reserve up to the amount in the Revaluation reserve for each respective asset. The SORP 2009 required an impairment loss due to the clear consumption of economic benefits on a re-valued asset to be recognised in Surplus or Deficit on the Provision of Services, (previously called the Income and Expenditure Account). As a result of this change the accounting entry between the Revaluation reserve and the Capital Adjustment Account to reflect the difference between impairment based on historical cost and the re-valued amount is no longer required.

The events or circumstances that indicate that a previous impairment can be reversed are the same for both intangible and tangible assets under IAS 36. In contrast, FRS 11 *Impairment of Fixed Assets and Goodwill*[37] set out the events or circumstances separately for intangible and tangible fixed assets.

Non-current assets held for sale

The Code requires an authority to measure an asset classified as held for sale at the lower of its carrying value and fair value less costs to sell. Where the carrying amount is lower, this will lead to a different valuation when compared to the valuation under the SORP which required the asset to be measured at market value less expected selling costs. This change will potentially result in more gains being recognised in an authority's Comprehensive Income and Expenditure Statement.

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37 http://www.frc.org.uk/asb/technical/standards.cfm
38 See http://www.ifrs.org/IFRSs/IFRS+technical+summaries/IFRS+summaries.htm for a summary of IFRSs

The SORP does not include any criteria that an authority has to meet in order to classify an asset as surplus. In contrast this section of the Code sets out strict criteria, all of which have to be met before an authority can classify an asset as held for sale.

The classification of surplus assets are categorised within the fixed asset heading under the SORP. Under this section of the Code, assets held for sale that satisfy the definition of current assets shall be classified under this heading within the Balance Sheet.

When the sale is expected to occur beyond one year, authorities shall measure the cost to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in the Comprehensive Income and Expenditure Statement as a financing cost. The SORP does not require the costs to sell to be measure at their present value where sale is expected to occur beyond one year.

A non-current asset (or disposal group) classified as held for sale shall not be depreciated (or amortised in relation to intangible assets). The SORP states that assets held for sale are not exempt from depreciation.

The SORP included an asset classification of 'surplus assets'. This classification will remain (as a sub-classification of property, plant and equipment) and will include assets that are surplus to service needs but that do not meet the definition of either investment property or assets held for sale. The ' for sale' classification is a new classification that will include only those assets that meet the definition of assets held for sale as specified in the Code.

The Code introduces the concept of a 'disposal group' in relation to assets that are to be grouped and sold in a single transaction.

On initial or subsequent increase in fair value less costs to sell an asset, revaluation gains were not limited under the SORP. In contrast, under the Code any initial or subsequent gains are recognised but not in excess of the cumulative impairment loss or revaluation loss (adjusted for depreciation) that has been recognised in the Surplus or Deficit on the Provision of Services under this section of the Code or previously in accordance with section 4.7 or section 4.1 of the Code. Any initial or subsequent decrease to fair value less costs to sell following reclassification is recognised in the *Surplus or Deficit on the Provision of Services* (even where there is balance on the Revaluation reserve). The SORP required impairment or revaluation losses to be recognised in the Revaluation Reserve.

The definition of discontinued operations within the SORP and associated guidance notes encompasses local government reorganisation. In contrast the definition within the Code does not include local government reorganisation since any 'machinery of government' changes are not discontinued operations. However, authorities are encouraged to separately identify the amounts associated with local government reorganisation, on the face of the financial statements to enable users of the financial statements to evaluate the financial effects of the reorganisation. The Code requires prior periods to be restated for discontinued operations, so that the current and prior periods relate to all operations that have been discontinued by the end of the reporting period being presented. The restatement of prior periods is not required by the SORP.

As at 31 March 2010, the Council's assets held for sale were valued at £26.7m. Following the transition to the Code, £26.0m of these have been reclassified as *Property, Plant and Equipment* leaving £0.700m within *Assets Held for Sale.*

Inventories

The SORP 2009 required inventories to be measured at the lower of cost and net realisable value. In contrast the Code requires that where inventories are acquired through a non-exchange transaction, their cost is measured at their fair value as at the date of acquisition, and where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost. It is not expected that there will be a change in the measurement for many inventories held by authorities.

An authority may purchase inventories on deferred settlement terms. The difference between the purchase price for normal credit terms and the amount paid (i.e. the arrangement effectively contains a financing element) is recognised as interest over the period of the credit in Surplus or Deficit on the Provision of Services. It is not expected that this occurrence will be common in authorities and the SORP is silent on this issue although the measurement is implicit in FRS 26 *Financial Instruments: Recognition and Measurement.*

The Code does not allow the use of last-in, first-out (LIFO) cost formula. SSAP 9 *Stock and Long Term Contracts* refers to the use of LIFO cost formula as one of the options to use as a basis for cost valuation for stock, although it discourages its use. The use of cost formula is not specifically stated in the SORP.

The Code requires that an authority must use the same cost formula for all inventories having a similar nature and use to the entity. This is not specifically stated in SSAP 9 or the SORP, although the principle of consistency under FRS 18 *Accounting Policies* set out in the SORP should lead to a similar treatment.

Employee benefits

Short-term employee benefits were not covered by the SORP. There is no UK accounting standard that deals with short-term employee benefits. As a result, differing accounting treatments of items such as annual leave may have developed. An approach based on IAS19 *Employee Benefits* will necessitate a change in accounting policies for many authorities.

Long-term employee benefits were not covered by the SORP, except for long-term disability benefits (called incapacity benefit in the SORP). Long-term disability benefits are treated as a type of defined benefit pension benefit in the SORP. In the Code they are not classed as post-retirement benefits but rather as other long-term employee benefits. The difference is that under the Code the net total expense is charged to the Surplus or Deficit on the Provision of Services; whereas under the SORP, the difference between the expected cost and amount actually incurred was treated as an actuarial gain or loss and charged to the Statement of Total Recognised Gains and Losses (STRGL). However, the Code has adopted an IPSAS 25 *Employee Benefits* interpretation that allows long-term disability benefits to be accounted as defined benefit retirement benefits in certain circumstances.

The SORP did not cover all termination benefits (e.g. lump sum payments on termination of employment not associated with retirement) – it only covered termination benefits awarded as an enhancement of pension benefits, usually in the form of added years of service. The SORP treated these as a retirement benefit and classified them as one type of past service cost. The Code, in accordance with IAS19, covers all forms of termination benefits and does not treat them as post-employment benefits, but as a separate category of employment benefit. Under the SORP the added years or other pension enhancement was recognised in the Income and Expenditure Account on a straight-line basis over the period in which the increase in benefit vests. The Code in accordance with IAS19 requires termination benefits to be charged to Surplus or Deficit on the Provision of Services immediately whether they vest immediately or not. In practice, in local authorities pension enhancements granted for

termination of employment would usually vest immediately and so under the SORP would usually have been charged to the Income and Expenditure Account immediately.

The main change within this area is the creation of a Balance Sheet creditor for employees' untaken leave at the 31 March. This was calculated at £4.9m as at 31 March 2009 and £4.6m as at 31 March 2010.

Provisions

Provisions under the SORP were classified as long-term liabilities. Under the Code, provisions are presented on the face of the Balance Sheet as either current or non-current liabilities.

Provisions are measured at the present value of the expenditure required to settle the obligation, where the time value of money is significant. This was not explicit in the SORP.

The Code allows consolidation of non-coterminous reported financial statements where the subsidiary, associate or joint venture's period end is within three months of the period end of the authority. The SORP permits consolidation of the subsidiary, associate or joint venture's reported results where their period end is no more then three months before the authority's reporting year end.

Group accounts

The calculation of the gain or loss on disposal of a subsidiary differs. Under the Code, it excludes goodwill previously written off to reserves. Under the SORP, goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal.

The SORP's definition of an associate focuses on 'the ability to exercise' significant influence whereas under the Code the focus is on the 'power to participate in the financial and operating policy decisions of the investee'. This could mean some differences in interpretation of those entities brought into the group accounts.

The SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The Code requires the use of proportionate consolidation or equity method.

Under the Code, adjustments should be made for the effects of significant transactions or events between the period ends of the parent and group bodies, which is not in the SORP, although has always been implicit in FRS 2 *Accounting for Subsidiary Undertakings* and FRS 9 *Associates and Joint Ventures.*

Although IFRS 3 *Business Combinations* will only apply infrequently to authority group accounts, there are differences to the SORP in the timing of when fair value of assets, liabilities and goodwill are measured and recognised (i.e. where the acquisition takes place in stages). Differences also exist with regard to accounting for goodwill; under IFRS 3 goodwill is not amortised but subject to impairment testing as required by IAS 36 Impairment of Assets. Under the SORP, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years, but it permits an indefinite useful life and includes annual impairment reviews. In addition there are differences in the accounting treatment of 'excess of acquirer's interest in the net fair value of acquiree's' (referred to as 'negative goodwill' in the SORP).

Appendix 2: Accounting Policies

General Principles

The purpose of this Statement of Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

Accounting policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves.

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, issued by CIPFA, and are the first to be prepared in accordance with International Financial Reporting Standards (IFRS). IFRS 1 *First Time Adoption of International Financial Reporting Standards* has been applied in their preparation. Information disclosing the effect of the transition from UK GAAP to IFRS on the Council's financial statements is shown in Appendix 1. Comparative figures in respect of 2008/09 and 2009/10 have been restated to reflect these adjustments.

The accounts are supported by accounting rules in the following hierarchy:

- Code of Practice on Local Authority Accounting in the United Kingdom 2010/11
- EU-adopted international standards:
  - International financial reporting standards (IFRSs)
  - International accounting standards (IASs)
  - International Financial Reporting Interpretations Committee (IFRIC) Interpretations
  - Standing Interpretations Committee (SIC) Interpretations
- International Public Sector Accounting Standards (IPSASs)
- UK Generally Accepted Accounting Practice (UK GAAP)
  - Financial Reporting Standards (FRSs)
  - Statements of Standard Accounting Practice (SSAPs)
- In addition, the following legislation (as amended) is complied with:
  - Local Authorities (Goods and Services) Act 1970 (Income from other bodies)
  - Local Government Act 1986 (Publicity account)
  - Local Government (Finance) Act 1992 (Council tax)
  - Local Government Act 1972
  - Local Government Finance Act 1988 (General Fund and Collection Fund)
  - Local Government and Housing Act 1989 (Housing Revenue Account)
  - School Standards and Framework Act 1998 (School balances)
  - Building Control Act 1984 and Building (Local Authority Charges) Regulations 1998 SI 1998/3129)
  - The Accounts and Audit (England) Regulations 2011 (SI 2011/817)
  - Local Government Act 2003, Part I (Capital finance and accounts)
  - The Waste and Emissions Trading Act 2003

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Any departure from the relevant standards is stated in the notes below.

In line with CIPFA's best practice approach to accounting for best value, the accounts are presented in compliance with the service expenditure analysis set out in CIPFA's Best Value Accounting Code of Practice (BVACOP).

Except where specified in the Code, the Council has determined the estimation techniques that most closely reflect the economic reality of the transactions based on all known facts available.

The Accounting concepts and policies which have a material impact on the accounts are as follows:

Accounting standards that have been issued but have not yet been adopted

The adoption of FRS 30 Heritage Assets by the Code will result in a change of accounting policy that requires disclosure in line with paragraph 3.3.4.3 of the Code. An authority shall, where material, disclose the following items in the 2010/11 financial statements (to the extent that the information is known or reasonably estimable):

a) narrative, related to the authority's specific circumstances, explaining that heritage assets are to be recognised as a separate class of assets for the first time in the 2011/12 financial statements, in accordance with FRS 30;
b) the carrying amount of assets expected to be reclassified as heritage assets, and their classification in the 2010/11 financial statements;
c) the expected amount of any revaluation gains and losses to be recognised on reclassification; and
d) the expected change in depreciation and impairment to be recognised in 2010/11.

Where an authority has elected to measure community assets at valuation (and has made this decision before the financial statements are authorised for issue), it shall, where material, disclose the following items in the 2010/11 financial statements (to the extent that the information is known or reasonably estimable):

a) narrative, related to the authority's specific circumstances, explaining the change of accounting policy in relation to the measurement of community assets;
b) the carrying amount of community assets (excluding those reclassified as heritage assets) in the 2010/11 financial statements;
c) the expected amount of any revaluation gains and losses to be recognised on remeasurement; and
d) the expected change in depreciation and impairment to be recognised in 2010/11.

Significant judgements in applying accounting policies

In applying its accounting policies the Council has had to make certain judgements about the complex transactions or those involving uncertainty about future events. The most significant areas where judgements have been necessary are:

- Accounting for pension liabilities
- Property valuations
- Provisions for future expenditure

Where judgement has been applied, the key factors taken into consideration are disclosed in the accounting policies and the appropriate note in the financial statements.

Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The item in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Pension liabilities

Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll forward method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Pension Fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, who also estimate the Pension Fund position as at 31 March 2011 based on their last full valuation of the scheme carried out as at 31 March 2010 and also includes their assessment of future movements in the return on pension assets and future pension liabilities as at 31 March 2011. Further details are included within Note 25.

Accounting policies

The accounting concepts and policies which have a material impact on the accounts are as follows:

1. Accruals of expenditure and income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

a) Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
b) Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
c) The cost of supplies and services are accrued and accounted for in the period that they consumed or received. Accruals are made for all material sums unpaid at the year-end for goods and services received or work completed.
d) Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
e) Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2. Area Based Grant (ABG)

ABG is a non-ringfenced general grant and no conditions on use are imposed as part of the grant determination ensuring full local control over how funding can be used.

ABG is included in the Comprehensive Income and Expenditure Statement with other general income sources such as income from the Collection Fund and NNDR redistribution.

3. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed term investments the Council do not considered fixed term investments to be highly liquid. Fixed term investments are shown on the Balance Sheet as either long or short-term investments depending on the remaining term to maturity of the investment.

4. Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5. Collection Fund income

Council tax

The fund's key features relevant to accounting for council tax in the core financial statements are:

a) In its capacity as a billing authority, the Council acts in part as an agent: it collects and distributes council tax income on behalf of the major preceptors (Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority) as well as itself. The cash collected by the Council belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the Council and the major preceptors, since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

b) While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund or paid out of the Collection Fund to major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus it's share of the surplus on the Collection Fund for the previous year (or less its share of the deficit); and this amount may be more or less than the accrued income for the year. The difference between the income included in

the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

National non domestic rates (NNDR)
The Council collects NNDR under what is in substance an agency arrangement. It therefore follows that:

a) NNDR income is not the income of the Council and shall not be included in its Comprehensive Income and Expenditure Statement. The cost of collection allowance received by the Council is the Council's income and is included in the Comprehensive Income and Expenditure Statement.

b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and shall not be recognised in the Balance Sheet.

c) Cash collected from NNDR taxpayers by the Council (net of the cost of collection allowance) belongs to the government and the amount not yet paid to the government at the Balance Sheet date shall be included as a creditor; similarly, if cash paid to the government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess is included in the Balance Sheet as a debtor.

d) Cash collected from NNDR taxpayers and payments into the NNDR national pool are not revenue activities and shall not be included in the Cash Flow Statement except for the cash retained in respect of the cost of collection allowance.

The Council has recognised either a creditor with the government for cash collected from NNDR taxpayers (less cash retained in respect of the billing authority's cost of collection allowance) not yet paid to the government at the Balance Sheet date, or a debtor if it has 'overpaid' the government.

6. Employee benefits

Benefits payable during employment
Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. lease cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

Termination benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis within the Cost of Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed, without realistic possibility of withdrawal, to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are

required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits (pensions)

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. To do this, it participates in two different pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF)
- The Tyne and Wear Pension Fund (part of the Local Government Pension Scheme), administered by South Tyneside Council

These provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7. Events after the Balance Sheet date

Where an event occurs after the balance sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the balance sheet date, an adjusting event

occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any new information about that adjusting event.

Where an event occurs after the balance sheet date that is indicative of conditions that arose after the balance sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts.

Events after the balance sheet date are reflected up to the date when the Statement of Accounts are authorised for issue and published.

8. Exceptional items and prior period adjustments

Exceptional Items

Exceptional items are included in the cost of services to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. A description of any exceptional items is given within Note 6 to the Core Financial Statements.

Prior Period Adjustments

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

9. Financial instruments

Financial assets

The Council classifies its financial assets into the following categories, as determined at initial recognition:

a) Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates for policy reasons rather than as financial instruments and these loans may be interest free or at rates below prevailing market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain

required against the General Fund balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement.

The Council has set a de-minimis level of £100,000; loans with a value below this amount have been measured at cost.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

b) Available-for-sale – assets that have a quoted market price and/or do not have fixed or determinable payments.

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles with a de-minimis level of £100,000:

- Instruments with quoted market prices: the market price
- Other instruments with fixed and determinable payments: discounted cash flow analysis
- Equity shares with no quoted market prices: independent appraisal of company valuations

Changes in the fair value are balanced by an entry in the Available-for-Sale Reserve and gain/loss is recognised in the Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on derecognition of an asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses, managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Amortised cost is adjusted for any premiums, discounts, material transaction costs and accrued interest. Where financial liability interest rates are fixed until maturity they are deemed not to require an effective interest rate calculation to be carried out.

The transaction costs of the financial liabilities held on the Council's Balance Sheet are considered to be immaterial.

Financial guarantees

Local Authorities give financial guarantees to make specified payments to reimburse the holder of a debt if a debtor fails to make payment when due in accordance with the terms of the contract. These arrangements are entered into for policy reasons rather than commercial reasons.

Financial guarantees are initially recognised at fair value taking into consideration the probability of the guarantee being called and the likely amount payable under the guarantee.

Impairment of financial assets

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the Code requires the asset be written down and a charge made to the Comprehensive Income and Expenditure Statement.

Fair value

For each class of financial asset and financial liability, the Council is required to disclose the fair value of that class of asset and liability in a way that permits it to be compared to its carrying amount. The Council assesses the fair value by calculating the present value of the cash flows that take place over the remaining life of the instruments, using a number of assumptions detailed in Note 25.

Fair values have not been calculated for assets or liabilities where the carrying amount is a reasonable approximation of fair value, such as trade creditors and debtors.

Redemption of debt

The Council is required by statute to set aside a minimum revenue provision (MRP), for the repayment of debt for General Fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA's Prudential Code (which follows the provisions of the Local Government Act 2003).

Repurchase of borrowing

Gains or losses on the repurchases or early settlement of borrowing are recognised in the Comprehensive Income and Expenditure Statement in the periods during which the repurchase or early settlement is made. However, where repurchase has taken place as part of a restructure of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the amount written down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. Premiums are spread over the longer of the outstanding term of the replaced loan or the term of the replacement loans and a maximum of 10 years in respect of the HRA. Discounts are spread over a minimum period equal to the outstanding term on the replaced loan, or 10 years, if this is shorter.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance, is managed by a

transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

External interest

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

10. Government grants and other contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants or contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied.

11. Intangible assets

Expenditure on assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as their fair value cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the

Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

12. Inventories and long-term contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO / weighted average costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

13. Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s length. Properties are not depreciated but are revalued according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

14. Landfill allowances trading schemes

The government introduced the Landfill allowance trading scheme (LATS) on 1 April 2005 for all waste disposal authorities (WDAs) in England. The scheme is intended to underpin the duty on WDAs to reduce the amount of biodegradable municipal waste disposed of to landfill. Under the scheme, local authorities receive an annual allocation of tradable allowances and have to account for the value of these allowances, together with the value of any allowances traded, and the liability for allowances utilised for actual landfill disposal.

Due to the large number of surplus allowances on the market and the scarcity of buyers, the trading value of allowances is currently set at zero.

These financial statements account for LATS in accordance with CIPFA's LAAP Bulletin 64: Accounting for the Landfill Allowances Trading Scheme 2005/06.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant item is written out of the Balance Sheet as a disposal. At the commencement of

the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Operating leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

16. Non-current assets held for sale

When it becomes probable that the carrying amount of a non-current asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. In order to be classified as an asset held for sale, the following conditions must be met:

- the asset is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable and the Council is committed to sell the asset and has initiated a programme to locate a buyer;
- the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value; and

- the sale is expected to be completed within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held or Sale.

17. Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP)[39]. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

18. PFI schemes

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

Gateshead Schools PFI

This private finance initiative scheme provides for seven new schools, all of which became operational in 2007/08 and 2008/09. The contract with Pinnacle Schools (Gateshead) Limited has an end date of August 2033.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The liability was reduced by an initial capital contribution of £5m.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council, with the exception of St Joseph's Roman Catholic Primary School (which is controlled by the Diocese, and as such will be shown on their balance sheet).

The amounts payable to the PFI operator (Pinnacle Schools (Gateshead) Limited) each year are analysed into the following elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;

[39] This becomes the Service Reporting Code of Practice from 2011/12.

- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; and
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

19. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

- **Recognition** - Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

- **Measurement** - Property, Plant and Equipment are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (6th edition).

  Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets, community assets and assets under construction (excluding investment property) are included in the Balance Sheet at historical cost, net of depreciation, where appropriate;
- Dwellings are measured at fair value, determined using the basis of existing use value for social housing (EUV-SH); and
- All other classes of asset are measured at fair value. For land and buildings, the fair value is considered to be the amount that would be paid for the asset in its existing use.

  Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

  The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

  Valuations are carried out on a rolling programme basis, with 20% of assets (by quantity) valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, HRA dwellings, the Civic Centre and other major assets are valued annually.

  The housing stock is valued on the basis of EUV–SH. In accordance with government guidance on housing resource accounting, a sample of properties was chosen to be

representative of each type of property and were valued as 'beacons'. The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values are reviewed annually to reflect movements in property market values.

Valuations are carried out by the Council's valuation officer, D Gillbanks BSc(Hons) FRICS IRRV.

- **Impairment** – Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

  Where impairment losses are identified, they are accounted for by:

  - where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
  - where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

  Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

- **Disposal of Assets** - when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

  Income from the disposal of fixed assets is accounted for on an accruals basis and amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

  Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

  The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

- **Depreciation** - IAS 16 *Property, Plant and Equipment* requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:

  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use;
  - Depreciation is calculated using the straight-line method;
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:
    - Computer and other equipment: 3-10 years
    - Vehicles: 3-10 years depending on make, model and use
    - Buildings: 20-50 years depending on use, construction type and condition
    - Infrastructure Assets: straight-line over 30 years
    - Council dwellings: 50 years
    - Gateshead Millennium Bridge: 120 years

  An exception to the above policy is made for assets without a determinable finite useful life such as land, which is not depreciated.

  Another requirement of IAS 16 is that separate charges are made for the depreciation of major components of a single asset, where significant components of the asset have materially different useful economic lives. The Council has split its assets into separate components where the following criteria are met:

  - The total asset has a value greater than £1 million;
  - The component has a value of greater than 20% of the total asset;
  - The component has a useful life which differs by 10 years or more from any other component of the asset.

  Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

20. Provisions, Contingent Assets and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The provisions made by the Council are reflected in Note 29 to the Core Financial Statements.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits that do not represent usable resources for the Council.

22. Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

23. Value Added Tax

VAT is included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenue and Customs.

24. Work in progress (construction contracts)

The work in progress shown in the accounts represents the cost price of private rechargeable works being undertaken by the Council, which will ultimately be charged to outside parties. The amount at which work in progress is included in the accounts is cost less any foreseeable losses and progress payments received.

Appendix 3: Annual Governance Statement

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website[40].

This statement explains how the Authority has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The governance framework

A clear statement of the purpose and vision for Gateshead is set out in Vision 2030 owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives for the next three years are set out in the Corporate Plan, which documents the Council's role, working with its partners, in supporting the delivery of the Sustainable Community Strategy. These are translated into more specific aims and objectives in the service plans which each Council service prepares annually. The achievement of these

[40] www.gateshead.gov.uk/Council%20and%20Democracy/policies/governance.aspx

objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

During 2009 consultation took place with key stakeholders to ensure the ideas originally developed in 2007 were still the most important ones and what the priorities should be for the next three years. This included the distribution of 10,000 consultation documents, 58 consultation events and articles in the Council News and key partners' publications.

The Council has a corporate performance management framework through which quality of service is measured via corporate performance indicators which in turn are reported through the Annual Report. Performance is monitored by group and service management teams and scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who report areas of concern to Cabinet. The Council has a performance management ICT system which brings together performance indicators, action and financial information to provide real time reporting. With changes to the national performance framework, the Council is redesigning its performance management framework to ensure it is effective, fit for purpose and sustainable.

The Council's programme for securing continuous improvement in its services is set out in the Corporate Plan. Actions for improvement are drawn from a variety of sources including the Council's own scrutiny and PACE reviews (which apply Best Value principles) and external inspections. The Council also considers issues arising from performance management, consultation exercises and service improvements identified by the Council's complaints and compliments procedure. An annual assessment of performance, detailing future actions required, is set out in the Annual Report.

The behaviour of Councillors is regulated through a Code of Conduct (approved by Parliament) which is supported by a number of protocols applying the principles of the Code to specific areas of Council activity. In addition, the Council's Standards Committee has the duty of maintaining high standards of conduct throughout the council and arranging training on ethical matters. In support of open and transparent accountability arrangements complaints can be made to the Standards Board for England where it is considered that a Councillor has not followed the Code of Conduct. This regime is currently under review nationally with a view to it being replaced; however it has remained in place throughout 2010/11. Employees are also subject to a Code of Conduct and number of specific policies (e.g. on bullying and harassment) as set out in the Employee Handbook. Advice on these matters is embedded in training courses such as Modern Gateshead Management.

Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution. This sets out, among other things, where responsibility lies for developing and delivering policy, and for taking decisions. The Constitution provides for extensive delegation to officers but within a policy framework laid down by the Council, and with the more significant executive decisions being taken by the Leader and Cabinet.

Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. Risk management awareness is an integral part of the Council's employee/management competency framework and a comprehensive training programme has been developed for employees at all levels. The Chairman of the Audit Committee, Councillor John Hamilton is the designated member Risk Champion for the Council. The Audit Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being

actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.

The Strategic Director, Finance and ICT is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety and budget issues; giving financial information; and acting as the Council's money laundering reporting officer. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Audit Committee reviews and approves the Council's Code of Governance; the original code was reviewed by the Audit and Standards Committees and approved by the full Council following referral from the Cabinet. The terms of reference for the Audit Committee state it will "consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements". The Committee reviews control and governance issues relating to the Council and submits an annual report to the Cabinet and Council, based on its activity over the year and the Annual Governance Statement.

Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every report submitted to a decision-making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making.

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Internal Audit Service throughout the year.

The Council has a Human Resources Strategy, which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs. The Council's 'whistle blowing' procedure is set out in the employee handbook and contact details are on the web-site. Responsibilities for investigation of allegations are set out in the Council's Fraud and Corruption Policy.

The Council is committed to the learning, training and development of all of its Councillors. A Learning and Development Policy for Councillors was agreed by Cabinet and is included as part of the Councillor Handbook. All councillors are encouraged to take the opportunity to draw up a Personal Development Plan (PDP) which is monitored on an annual basis. The PDP helps to identify areas where individuals would like extra training or development. Tailored training courses are available for Councillors in specific areas including Local Government Finance, Ethics & Probity and Risk Management. An induction programme also exists for new Councillors.

The Council is pro-active in its approach to community engagement with all stakeholders. The aim is to ensure all local people are well informed about the Council; actively involved in influencing what happens in their local area and ensuring delivery of the services that meet the needs of local people.

A partnership register is maintained which is updated on an annual basis. Examples of partnerships on the register include the Gateshead Strategic Partnership, the Local Safeguarding Children Board and the Health and Social Care Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed for each of these.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by Cabinet Members, the work of managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

The review of the effectiveness of governance arrangements is informed by:

- The opinion of the Leader and members of the Cabinet;
- The work of managers within the Council;
- The effectiveness and work of Internal Audit, incorporating the Internal Audit Service and the Audit Committee;
- Corporate Risk Management;
- Performance Management and Data Quality information;
- The external auditor in his annual audit letter and other reports;
- Assurance from the Strategic Director, Legal and Corporate Services on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Finance and ICT on the operation of the Council's financial controls; and
- Partnerships arrangements.

The Council's Constitution sets out the role of the Leader and Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;
- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
- To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the overview and scrutiny role; and
- To provide a public face on specific issues.

The Council's Code of Corporate Governance is reviewed regularly and was last approved by the Audit Committee on 24 January 2011. A report was presented to the Audit Committee of 20 June 2011 in which Members of the Cabinet identified that they felt reliance could be placed on the Council's corporate governance arrangements when carrying out their roles.

Heads of Service have carried out self assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. A report was submitted to the Audit Committee on 20th June 2011, which concluded that based on the self assessments Heads of Service agreed that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Finance and ICT, but in order to ensure independence has direct access to the Chief Executive, Strategic Director, Legal and Corporate Services (Monitoring Officer), and the Audit Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee of 20th June 2011. This concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, which is incorporated in the Annual Internal Audit Report to the Audit Committee. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in seventeen cases where significant weaknesses were identified. Thirteen of these cases were in specific separate areas. Four of these audits were directly related to the qualification of the Annual Governance Statement for 2009/10 and are as follows:

- Commissioning
- Personal Budgets
- Panel Governance (Disabilities)
- Financial Assessment of Adult Care Clients

These audits have been followed up in the last quarter of 2010/11 and the first quarter of 2011/12. Final reports have now been issued which concluded that controls are now satisfactory as a result of the progress that has been made. Despite this there are certain actions that remain outstanding and as a result the overall opinion, as reported to the Audit Committee of 20 June 2011, is that the Council's internal control systems and governance arrangements are considered to be effective with the exception of certain specific systems operating within the areas of Adult Social Care and Financial Services. These outstanding issues are reflected in the current action plan set out below.

The Annual Risk Management Report was presented to the Audit Committee on 20 June 2011, in which it was concluded that risk management arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Legal and Corporate Services, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. The effectiveness of this framework allowed the Monitoring Officer in 2009/10 to raise concerns in respect of weaknesses identified in the area of Adult Social Care, notably around contract management, commissioning and compliance with the Council's Contract Procedure rules. Outstanding issues continue to be reflected in the current action plan set out below.

Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Finance and ICT (Chief Financial Officer) who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. Effective systems are in place to ensure the lawfulness and

financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Heads of Service review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Heads of Service have also been required to provide assurance on governance arrangements through self-assessments and returns to the Partnership Officer. A report was submitted to the Audit Committee on 20th June 2011, which concluded that based on the self assessments and evidence of other governance arrangements partnerships were found to be operating effectively.

The results of the review of the Council's governance arrangements, including the internal control environment, have concluded that it is effective with the exception of certain specific systems and arrangements operating within Adult Social Care and Financial Services. These issues were originally raised as part of the 2009/10 Annual Governance Statement and progress has been set out in the action plan below.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

Actions implemented within the last 12 months, currently underway and proposed future actions to deal with significant governance issues and their target implementation dates are:

Action for Improvement	Original Deadline for Implementation	Progress at 31 May 2011
1. Develop a database of all commissioned arrangements to include type of provision, name of provider, date of commencement, date of expiry and contract review dates.	September 2010	Not yet implemented. Workload pressures in the Service resulted in the appointment of an external provider to develop a database. The original provider could not meet the required specification but plans are now in place, through an alternative provider, to bring together all arrangements in one place. As a result expected implementation is now September 2011.
2. Identify all contractual arrangements that are currently in place.	August 2010	Not implemented. Linked to actions 1 and 4. All arrangements not currently supported by written contracts to be identified by September 2011.
3. Develop a checklist of clauses that should be included in all contracts for adult social care provision for inclusion in all new contractual arrangements. This should include how	Draft clauses to be agreed by September 2010	Implemented

safeguarding plans are to be monitored. 4. Revise existing contracts to include at next possible review stage.	 Ongoing	 Ongoing. A model contract has been used in the domiciliary care re-tender which can be used on a template basis in all future reviews of contractual arrangements. Draft contracts have also been prepared in respect of independent living arrangements (using the above model basis) and residential and nursing care.
5. Ensure supporting documentation is provided by clients receiving individual budgets and direct payments to validate all expenditure incurred. 6. Continuously review and investigate clients with high credit balances.	August 2010 November 2010	Implemented. Effective “chase process” now in place by Financial Services. Where clients still do not return supporting documentation at the end of this process they are referred back to Adult Social Care to arrange a reassessment of their ability to manage a Personal Budget or Direct Payment. Implemented
7. Develop the existing written procedures and systems to include controls, roles and responsibilities of all staff involved in the award and monitoring of personal budgets.	November 2010	Implemented. New recommendation made at follow up audit that the respective Heads of Service should receive a monthly control return to highlight case numbers, values and key issues.
8. Develop clear written guidelines for the administration and operation for the awarding of care packages through the Panel responsible for clients with disabilities, including arrangements for approval of care in emergency cases.	June 2010	Implemented
9. Ensure all awards of personal budgets are reviewed at least annually and prioritise outstanding reviews for existing clients.	Outstanding reviews completed by November 2010	Part implemented - There were 166 outstanding reviews as at January 2011. As at the end of May 2011 there are 16 outstanding cases to be reviewed and 37 where documentation needs finalising following a review. All are to be

		completed by the end of June 2011. Systems for preventing such a back log in the future will be reviewed by Internal Audit prior to this action being fully signed off
10. Review all arrangements in both Commissioning and panel processes to ensure compliance with the Council's Contract Procedure Rules.	August 2010	Part implemented. Procedure now exists to consolidate the commissioning of services. This procedure is to be rolled out by July 2011. Procedure needs embedding and testing by Internal Audit prior to this action being fully signed off.
11. Review current systems in operation for the financial assessment of adult social care clients as part of the consolidation arrangements under the Fit for Future programme.	August 2010	Part implemented. Remaining financial assessments and standardisation of recording and monitoring systems to be addressed by July 2011.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that we identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed by: Date: 28 June 2011

Leader of the Council

Signed by: Date: 27 June 2011

Chief Executive

Appendix 4: Independent Auditor's Report

[to be added post-audit]

Appendix 5: Glossary of Terms

Accounting policies are those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

(i) recognising;
(ii) selecting measurement bases for; and
(iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the Comprehensive Income and Expenditure Statement or Balance Sheet it is to be presented.

Accruals: the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

Accumulated Absences Account See Note 16.

Acquired operations are those operations of the Council that are acquired in the period.

Actuarial gains and losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Amortisation is the process of writing-off an intangible asset over its projected life. It is analogous to depreciation of tangible non-current assets.

Appropriations are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement or the HRA. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Area based grant is a general (non-ringfenced) grant allocated directly to local authorities from DCLG as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae (see also Formula Grant).

Assets: an asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash, stocks, and work in progress).

Non-current assets yield benefit to the Council and the services it provides for a period of more than one year (e.g. land and buildings).

Available for sale assets are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).
- The sale is highly probable, with the Council committed to a plan to sell the asset
- An active programme to locate a buyer and complete the plan has been initiated
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Augmentation is the term for purchasing added years' pension contributions for an employee. It is a cost to the Council, and is usually incurred when an employee retires early; it is similar to strain on the fund payments.

Bad debts and bad debt provisions: bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

Best Value provides a framework for the planning, delivery and continuous improvement of Council services. The overriding purpose is to establish a culture of good management in local government for the delivery of efficient, effective and economic services that meet the users' needs.

Under best value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

Best Value Accounting Code of Practice (BVACOP) provides guidance on financial reporting to ensure data consistency and comparability. It was introduced in response to the demands placed upon local authorities to secure and demonstrate Best Value in the provision of services to the community.

Budgets are statements defining the Council's policies over a specified period of time in terms of finance. The budget also includes statements about the use of other resources (e.g. numbers of staff) and the methods of financing expenditure.

Capital Adjustment Account See Note 16.

Capital charges are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset.

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital grants and contributions are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

Capital grants unapplied See Note 16.

Capital receipts are proceeds from the sale of Council-owned land and buildings or from the repayment of loans and advances. A major element of the Council's capital receipts is from the sale of council dwellings under the "Right to Buy" legislation[41].

Capital receipts reserve see Note 16.

Capitalisation directions: these occur when government, exceptionally, permits local authorities to treat revenue costs as capital, relaxing the general rule that revenue costs should be met from revenue resources. Such permissions, given through capitalisation directions, are issued by the Secretary of State under section 16(2)(b) of the Local Government Act 2003.

The effect of a direction is that specified revenue expenditure becomes treated as capital expenditure, so that instead of having to be charged to revenue, it may be funded from capital sources (e.g. borrowing or capital receipts), thereby increasing the Council's financial flexibility.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CIPFA (the Chartered Institute of Public Finance and Accountancy) provides guidance in the interest of public services. It is the professional body for accountants working in the UK public sector (and local government in particular). It provides financial and statistical information for local authority and other public sector bodies, and advises central government and other bodies on public finance.

Collection Fund Adjustment Account See Note 16.

Community assets are non-current assets that the Council intends to hold in perpetuity, that have no determinable useful life and which may have restrictions on their disposal (e.g. parks and historic buildings).

Constructive obligation is an obligation that derives from an authority's actions where:
by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingencies are funds set aside as a reserve to meet the cost of unforeseen items of expenditure, or shortfalls in income and to provide for inflation. This is not included in individual budgets because their precise value cannot be determined in advance.

Contingent assets are possible assets arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

[41] www.communities.gov.uk/housing/buyingselling/ownershipschemes/righttobuy

Contingent liabilities are either:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Contributions are amounts owed to or by the Council for liabilities incurred.

Corporate & democratic core comprises all activities that the Council engage in specifically because it is an elected, multi-purpose authority. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs.

Corporate governance is the system by which an organisation directs and controls its functions and relates them to its communities.

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 11/12 council tax bill in 10/11).

Current assets are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

Current liabilities are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

Current service cost (pensions) is the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailments are pension adjustments which reduce the expected years of future service of current employees or eliminate the accrual of defined benefits for some or all of their future service. Gains or losses on curtailment must be immediately recognised.

Debtors are amounts owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year. The technical definition is: financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Deferred capital receipts See Note 16.

Deferred liabilities are liabilities that should have been paid to an individual or an organisation during the year but have been deferred to a later date.

Defined benefit scheme is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

Discontinued operations are those that meet all of the following conditions:
(a) The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
(b) The activities related to the operation have ceased permanently.
(c) The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the Council's continuing operations.
(d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes. Operations not satisfying all these conditions are classified as continuing.

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure.

Discretionary benefits are retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

Earmarked Reserves See Note 16.

Equal Pay Back Pay Account See Note 16.

Estimates are amounts that the Council expects to spend or receive as income during an accounting period:

- **Original Estimates** are the estimates for a financial year approved by the Council before the start of the financial year.
- **Revised Estimates** are an updated revision of the estimates for a financial year prepared within the financial year.

Estimation techniques are methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. A policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. They include, for example:

(a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a non-current asset consumed in a period; and

(b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected rate of return on pension assets: for a funded defined benefit scheme, is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the scheme.

Fair value is the price at which it could be exchanged in an arm's length transaction less (where applicable) any grants receivable towards the purchase or use of the asset.

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred.

Finance lease liabilities are equal to the net present value of minimum lease payments.

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Instruments Adjustment Account See Note 16.

Formula grant is the general grant given to support local authority spending on services other than schools. It comprises revenue support grant and national non-domestic rates. In addition, authorities also receive a wide range of specific grants from government departments towards particular service areas or government initiatives (see area based grant). Central government support in total is known as aggregate external finance (AEF), comprising specific grants and formula grant.

General Fund See Note 16.

Grants are assistance by other bodies in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Grant determination is a schedule provided by a grant awarding body that indicates the funding to be awarded and any conditions or restrictions associated with the grant(s).

Government grant is assistance by government, inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Gross expenditure is the total cost of providing the council's services before taking into account income from government grants and fees and charges for services.

Historical cost is the original monetary value of an asset.

Housing Market Renewal (HMR) is a government initiative designed to tackle housing market failure in nine pathfinder areas across the north and midlands of England. The initiative will help improve areas that suffer from abandonment and poor quality or unpopular housing stock, creating sustainable communities that people will want to live, work and invest in.

Housing Revenue Account (HRA) See Note 16.

HRA subsidy is government grant paid to the Council towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

IASs (International Accounting Standards) are accounting pronouncements issued by the IASB. They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole.

IASB (the International Accounting Standards Board) is the body that, in conjunction with the IFRS Foundation, issues international accounting standards (IFRSs, IASs, and IFRIC interpretations)

IFRSs (International Financial Accounting Standards) are accounting pronouncements issued by the IASB. They have been adopted (or, in some cases, interpreted or adapted) by the UK public sector in an attempt to make it more comparable with both the private sector and the international community as a whole.

Impairment is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

Infrastructure assets are non-current assets that are inalienable; expenditure on such assets is only recoverable through continued use of the asset. Examples of infrastructure assets are highways and footpaths.

Intangible assets are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

Interest cost (pensions) is, for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments are separated into the following categories:
- Long-term investments are investments intended to be held for use on a continuing basis in the activities of the Council for 365 days or more; and
- Short-term investments occur when surplus funds are invested for 364 days or fewer.

Investments (Pension Fund) in the Local Government Pension Fund are accounted for in the statements of that fund. However, the Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with the underlying obligations.

Investment properties are interests in land and/or buildings, in respect of which construction work and development have been completed, and which is held solely for its investment potential, with any rental income being negotiated at arm's length.

Job evaluation is an obligation on councils introduced in the 2004 local government pay agreement, developed specifically to comply with equal value and equality principles. All jobs within the Council are subject to re-evaluation, with any reductions in pay subject to a period of protection (which is a liability to the Council for the duration of this period).

Leases: leasing is the method of financing the provision of various capital assets to discharge the Council's functions outside normal borrowing procedures but within the criteria laid down in the Local Authorities (Capital Finance) Regulations. Leases are classified as either *finance leases* or *operating leases*.

Levies
Similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through council tax as with precepting bodies; they are items of expenditure on the face of the Income and Expenditure Account. The bodies that charge a levy on the Council are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority.

Liabilities are legally binding obligations to settle debts owed / commitments made.

Liquid resources are current asset investments that can be readily disposed of by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through 99 regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities[42].

Long-term contract is a contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Major Repairs Allowance is the main housing subsidy for the Council, based on the cost of maintaining council dwellings.

Major Repairs Reserve See Note 16.

Materiality: an item of information is material if its omission or misstatement from the accounts might reasonably affect the assessment of the Council's stewardship, economic decisions or comparison with other entities. Materiality is dependent on the size and nature of the item in question.

42 See http://www.twpf.info for further information

Minimum lease payments are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

(b) For a lessor, any residual value guaranteed to the lessor by:
   (i) The lessee;
   (ii) A party related to the lessee; or
   (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net book value, or carrying amount, is the amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation / amortisation.

Net current replacement cost is the cost of replacing or recreating a particular asset in its existing condition and in its existing use i.e. the cost of its replacement or of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

Net debt is the Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net realisable value is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-current assets are those that yield benefits to the local authority and the services it provides for a period of more than one year.

Operating lease is a lease other than a finance lease.

Operational assets are non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost, for a defined benefit pension scheme, is the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension fund: an employees' pension fund is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Pensions Reserve See Note 16.

Pooled funds can be established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

Precepts are amounts of council tax collected by the Council and paid to other bodies. The major precepting bodies are *Northumbria Police Authority* and *the Tyne and Wear Fire and Rescue Authority*. Parish precepts are charged separately and only on the area of the parish council concerned. Parish precepts are treated in the accounts as council expenditure.

Private finance initiatives (PFIs) are public/private sector partnerships designed to procure new major capital investment resources for local authorities. They are intended to form a substantial and genuine additional source of funding to local authorities rather then merely being a replacement for existing funding.

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions are amounts set aside in the accounts for liabilities that are likely to be incurred or assets that are likely to be received but where the amounts or the dates on which they will arise are uncertain.

Prudential borrowing is the current regime for council borrowing; it gives local authorities much more freedom than the previous system in deciding how much they can afford to borrow. All borrowing must remain within the Council's prudential borrowing limits (see Prudential Code), which are agreed annually by committee (Council).

Prudential Code for Capital Finance in Local Authorities is a framework for local authority capital investment introduced through the Local Government Act 2003.The basic principle of the Prudential Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

Public service agreements (PSAs) are statements of the aims, objectives and targets to be achieved by public bodies with the funding provided through the government's Comprehensive Spending Review.

Related parties: two or more parties are related when at any time during the financial period:

(i) One party has direct or indirect control of the other party, or
(ii) The parties are subject to common control from the same source, or
(iii) One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
(iv) The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

(i) Central government
(ii) Local authorities and other bodies precepting or levying demands on the council tax
(iii) Its subsidiary and associated companies
(iv) Its joint ventures and joint venture partners
(v) Its councillors (members)
(vi) Its chief officers, and
(vii) Its pension fund.

For individuals identified as related parties, the following are also presumed to be related parties:

(i) Members of the close family, or the same household, and
(ii) Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

(i) The purchase, sale, lease, rental or hire of assets between related parties
(ii) The provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
(iii) The provision of a guarantee to a third party in relation to a liability or obligation of a related party
(iv) The provision of services to a related party, including the provision of pension fund administration services
(v) Transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

Remuneration is defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserves are monies set aside by the Council that do not fall within the definition of provisions.

Residual value is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits are all forms of consideration given by the Council in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revaluation Reserve See Note 16.

Revenue expenditure is incurred on the day-to-day running of the Council; the costs principally include employee expenses, premises costs, supplies and transport.

Revenue expenditure funded from capital under statute is expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example improvement grants. They replaced the concept of deferred charges (2008 SORP onwards).

Revenue funding is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

Revenue support grant (RSG) is grant paid by the government towards local services in general, as opposed to specific grants (which may only be used for a specific purpose).

Scheme liabilities (of a defined benefit scheme) are outgoings due after the valuation date. They are measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Section 106 agreements: Section 106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally binding agreement / planning obligation with a landowner in association with the granting of planning permission. The obligation is called a Section 106 Agreement.

Settlement is an irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
(b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
(c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Short-term Accumulating Compensated Absences Account represents the estimated financial value of untaken short-term employee benefits (i.e. annual leave) at the end of the financial period.

Slippage relates to capital spend; slippage occurs when capital budgets allocated to a particular financial year are not spent, and are carried forward into the next year.

Special Services cover services to HRA tenants such as cleaning, communal lighting, lifts, communal heating, laundry services, concierge schemes, ground maintenance and welfare services, excluding essential care and other special services.

Stocks are held on the Balance Sheet expectation of future use when unused or unconsumed. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Strain on the fund: when a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council’s consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

Supported Borrowing: the Council receives revenue support grant to finance borrowing up to a specified limit, hence the borrowing is supported.

There are two types of supported capital expenditure (SCE):

- Supported Capital Expenditure (Revenue) known as SCE(R)
- Supported Capital Expenditure (Capital grant) known as SCE(C)

SCE(R) is the amount of expenditure towards which revenue support grant will be received from central government for the costs of borrowing.

SCE can be classified further as single pot SCE(R) and SCE(C) or ringfenced SCE(R) and SCE(C). The single pot means that the SCE can be used to fund the capital programme in

general whereas ring fenced means that the SCE must be used to finance the capital scheme for which it was awarded.

Support services, or overheads, are those that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

Trust Funds: from time to time the Council receives donations from private individuals or companies on condition that they are used for specified purposes. Depending on the terms of the trust agreement either whole or part of the donation itself is used for the purpose specified or it is invested and the interest is so used. If the initial purpose of the donation is no longer appropriate or the beneficiaries no longer exist, an application can be made to the Charity Commissioners to vary the terms of the trust.

Ten Point Plan[43]**:** this is a Council plan aiming to mitigate the effects of the recession, ensure that the borough remains resilient and is prepared for the future economic upturn.

Unusable reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences. Note 16 provides further information on the individual reserves in this category.

Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as ‘cash-backed’. Note 16 provides further information on the individual reserves in this category.

Useful life, or useful economic life, is the period over which, the local authority will derive benefits from the use of a non-current asset.

Work in progress within the Council consists of private rechargeable works, which are valued at cost less anticipated liquidated damages and progress payments received.

Vision 2030 is Gateshead Strategic Partnership’s ambitious Sustainable Community Strategy; a statement of intent to make Gateshead the best place to live, work and visit. It is based upon 6 ‘Big Ideas’ which are the Council’s aspirations, developed through debate, discussion and visioning with people in Gateshead.

[43] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-29975/Item+12+-+Ten+Point+Plan+Report.doc

Appendix 6: Contacts

For copies, please contact Customer Services on 0191 433 3000.

For queries / feedback, please contact Craig Oakes on 0191 433 3598.

Primary contacts:

Chief Executive:	**Roger Kelly**
Chief Financial Officer:	**Derek Coates**
Leader of the Council:	**Mick Henry**
Audit Committee Chair:	**Councillor John Hamilton**

Web links:

www.gateshead.gov.uk
www.gatesheadhousing.co.uk

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Financial Management
Gateshead Council
Civic Centre
Regent Street
Gateshead NE8 1HH

0191 433 3000
www.gateshead.gov.uk